2019 Economic Background and 2020 Prospects

Government of the Hong Kong Special Administrative Region

2019 ECONOMIC BACKGROUND AND 2020 PROSPECTS

OFFICE OF THE GOVERNMENT ECONOMIST
FINANCIAL SECRETARY'S OFFICE
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Summary

- *The Hong Kong economy went through a difficult year in 2019. Continuing the deceleration that started in the second half of 2018, the economy grew only modestly by 0.6% year-on-year in the first half of 2019 amid softening global economic growth and elevated US-Mainland trade tensions. The economy then worsened abruptly and recorded sharp contractions of 2.8% and 2.9% respectively in the third and fourth quarters, as the local social incidents involving violence dealt a heavy blow to economic sentiment and consumption- and tourism-related activities. For 2019 as a whole, the economy contracted by 1.2%, the first annual decline since 2009.*

- *Hong Kong's total exports of goods switched to a fall in 2019, as the global economic slowdown and US-Mainland trade tensions dampened trade and investment worldwide. The year-on-year decline widened successively in the first three quarters, before narrowing in the fourth quarter upon a low base of comparison. Exports to most major markets recorded declines of varying degrees.*

- *Exports of services worsened visibly and registered the biggest annual decline on record, with the fall being particularly drastic in the second half of the year as the social unrest caused a severe setback in inbound tourism. Exports of travel services witnessed the largest annual decline on record. Other services exports also weakened and registered falls amid an austere global economic environment.*

- *Domestic demand retreated in 2019, especially in the second half when consumption-related activities and economic sentiment were severely affected by the local social incidents. Private consumption expenditure posted the first annual decline since 2003. Overall investment expenditure recorded the biggest drop in two decades, with machinery and equipment acquisition falling sharply and building and construction expenditure weakening further.*

- *The labour market was increasingly under pressure during the year, especially in the second half when economic conditions deteriorated abruptly. The seasonally adjusted unemployment rate went up from a 20-year low of 2.8% in the second quarter to 3.3% in the fourth quarter, with those for the tourism- and consumption-related sectors showing more visible increases. Total employment also fell visibly. Earnings of low-income workers continued to increase throughout 2019, but household incomes weakened in the second half of the year.*

- *The local stock market exhibited considerable volatility in 2019, as market*

sentiment swung along with the abrupt changes in external and local situations. The Hang Seng Index closed the year at 28 190, 9.1% higher than end-2018. The residential property market quietened visibly since June, having stayed generally active during the first five months of 2019. While flat prices generally softened since June, they on average still recorded a cumulative increase of 5% for the year as a whole.

- *Consumer price inflation went up in 2019, primarily due to a sharp increase in pork prices amid reduced supply of fresh pork since May. Price pressures on other major consumer price index components were largely moderate. Underlying consumer price inflation climbed from an average of 2.6% in 2018 to 3.0% in 2019.*

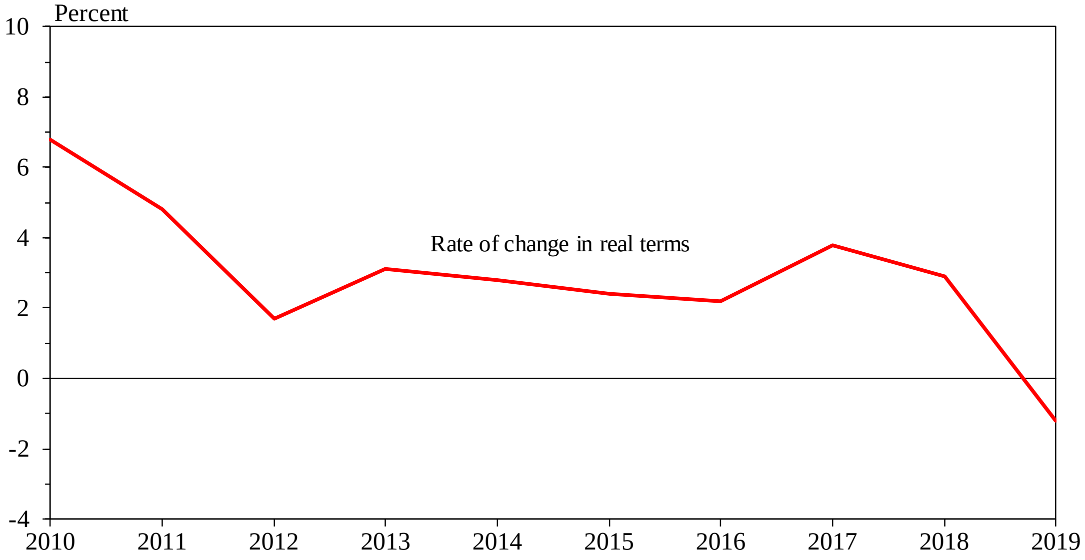
Overall situation

1.1 In 2019, the Hong Kong economy experienced its first annual contraction since 2009. This was in stark contrast to the solid growth in the preceding two years. Continuing the decelerating trend that began in the second half of 2018, the economy registered only modest growth in the first half of 2019 amid a synchronised global economic slowdown and US-Mainland trade tensions. The economy entered recession in the second half of the year as the local social incidents involving violence dealt a heavy blow to a range of economic activities and US-Mainland trade tensions escalated. Total exports of goods switched to a decline in 2019, in tandem with slackening global trade and investment. Exports of services worsened visibly, recording a sharp fall in the second half of the year along with the severe setback in inbound tourism. As for domestic demand, private consumption expenditure saw its first annual decline since 2003, as subdued economic conditions weighed on consumer sentiment and the local social incidents severely disrupted consumption-related activities (See ***Box 1.1***). Overall investment expenditure recorded the biggest drop in two decades amid very pessimistic business sentiment. The labour market eased, particularly in the second half of the year, as economic conditions worsened. The unemployment rates in the tourism- and consumption-related sectors, which were hard hit by the local social incidents, saw visible increases. Consumer price inflation went up in 2019, primarily due to a sharp increase in pork prices amid reduced supply of fresh pork.

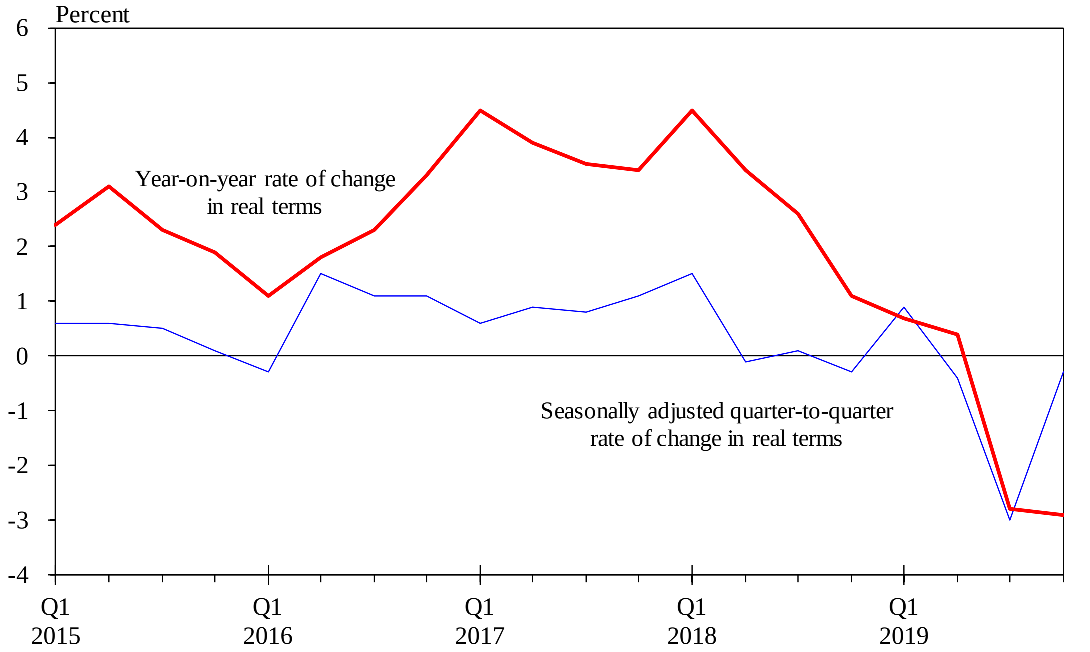
1.2 *Gross Domestic Product* (GDP)(1) contracted by 1.2% in real terms for 2019 as a whole, the first annual decline since 2009, as compared to the 2.9% growth in 2018. As for the quarterly profile, real GDP grew modestly by 0.7% year-on-year in the first quarter and 0.4% in the second quarter, before switching to the declines of 2.8% in the third quarter and 2.9% in the fourth quarter. On a seasonally adjusted quarter-to-quarter basis(2), real GDP grew by 0.9% in the first quarter, but shrank by 0.4%, 3.0% and 0.3% respectively in the following three quarters.

Diagram 1.1 : The Hong Kong economy entered recession in the second half of 2019 and contracted for the year as a whole

(a) Annual profile



(b) Quarterly profile



Box 1.1

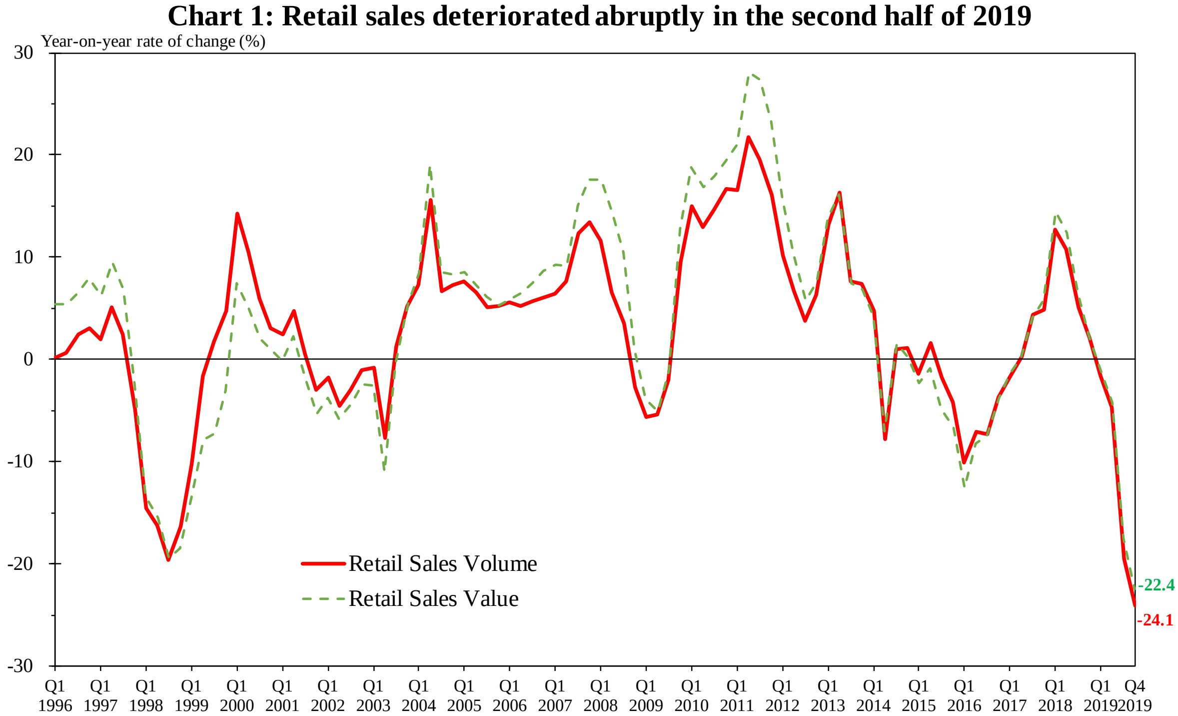
Recent performance of Hong Kong's retail sales

This note examines the performance of retail sales in recent years and provides an update to ***Box 1.2*** in the ***Third Quarter Economic Report 2015***.

After two lacklustre years in 2015 and 2016 partly due to the implementation of the "one trip per week" Individual Visit Endorsements, retail sales gradually recovered in 2017 alongside the economic upturn and resumed a modest growth of 1.9% in volume for the year as a whole. Also helped by buoyant inbound tourism, growth in retail sales volume picked up strongly to 7.6% in 2018. Yet the growth momentum started to wane in the latter part of 2018, as worsened economic conditions dampened consumer sentiment while tourist spending showed moderated increases (***Chart 1***).

Retail sales underwent a difficult year in 2019. Retail sales volume declined by 3.1% in the first half of 2019 from a year earlier, as consumer sentiment turned increasingly cautious in the face of mounting external headwinds and subpar economic conditions. This was followed by an abrupt deterioration in the second half of the year, mainly reflecting a severe blow from the local social incidents. The year-on-year fall in retail sales volume widened sharply to 19.5% in the third quarter and further to 24.1% in the fourth quarter(1), the largest quarterly decline since data were available in 1981. For 2019 as a whole, retail sales volume fell by 12.3%, the largest annual fall since 1998.

Chart 1: Retail sales deteriorated abruptly in the second half of 2019



Note: Retail sales statistics compiled before the fourth quarter of 2005 followed the Hong Kong Standard Industrial Classfication (HSIC) Version 1.1, while the statistics compiled on or after the fourth quarter of 2005 followed the HSIC Version 2.0.

Analytically, the local social incidents dealt a severe blow to retail sales through three channels, i.e. weighing on inbound tourism, dampening local consumer sentiment and disrupting the safe environment needed for people contact. Since July 2019, mass demonstrations with violence have hurt Hong Kong's image as a safe city and severely deterred visitors. Visitor arrivals swung from a notable year-on-year growth of 13.9% in the first half of the year to sharp declines of 26.0% in the third quarter and 50.5% in the fourth quarter, the worst quarterly decline since the SARS outbreak in 2003. The fall in visitor arrivals for 2019 as a whole, at 14.2%, was the biggest annual decline on record. Total tourism expenditure associated to inbound tourism registered a mild decline of 0.5% in the first half of 2019, and should have recorded a sizable fall in the second half judging from the plunge in visitor arrivals.

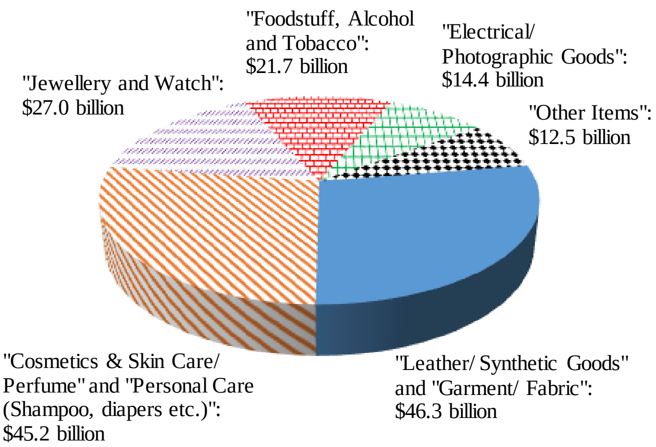
(1) Retail sales statistics for the fourth quarter of 2019 and the year as a whole are provisional figures.

Box 1.1 (Cont'd)

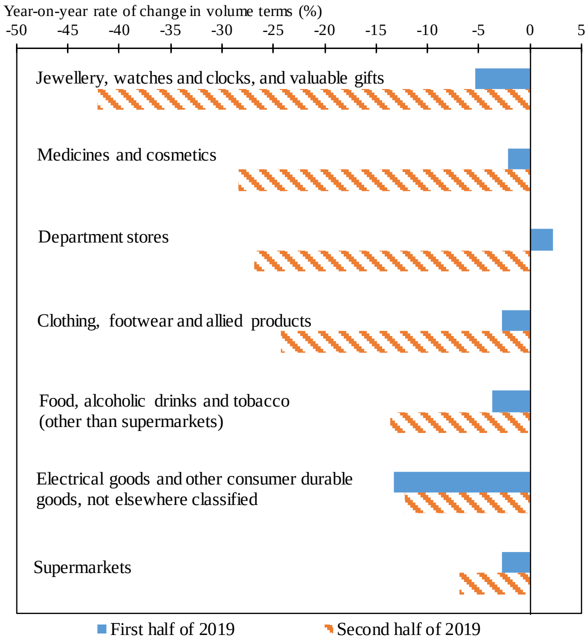
According to statistics compiled by the Hong Kong Tourism Board, within the total visitor expenditure of $328.2 billion in 2018, $167.1 billion was spent on shopping. This was equivalent to around one-third of the value of total retail sales (2). Therefore, the sharp fall in visitor arrivals in the second half of 2019 took a heavy toll on retail business. Retail outlets selling "leather/ synthetic goods", "garment/ fabric", "jewellery and watch", "cosmetics & skin care/perfume" and "personal care", which feature prominently in visitors' shopping expenditure, witnessed particularly noticeable declines in sales volume in the second half of 2019 (***Chart 2***).

Chart 2: Retail outlets selling items that feature prominently in visitors' shopping expenditure witnessed particularly noticeable sales declines in the second half of 2019

Visitors' shopping expenditure in 2018



Performance of major retail outlets in 2019



The local social incidents have also severely hurt consumer sentiment. The overall Hong Kong Consumer Confidence Index compiled by the City University of Hong Kong plummeted from 77.7 in the second quarter of 2019 to 52.8 in the third quarter of 2019, the lowest reading since the Index was available in 2008. It remained at a low level of 68.7 in the fourth quarter 2019. Private consumption expenditure, after growing moderately in the first half, turned to decline by 3.3% and 2.9% in real terms in the third and fourth quarter of 2019 respectively from a year earlier.

Furthermore, at the height of the local social incidents, radical protesters blocked roads and damaged public transportation facilities, not only causing serious disruptions to major transport networks but also raising concerns about personal safety of residents. Retail outlets and shopping malls in many areas were forced to close earlier from time to time. Many residents avoided going out in the fear of being hurt or having problems returning home.

Latest surveys showed that both large and small-and-medium sized enterprises in the retail sector remained pessimistic about the business situation in the near term (see ***Box 1.2*** for an analysis of business sentiment). More recently, the business environment of the retail sector has become even more difficult due to the threat of the novel coronavirus infection. The outlook for the retail business in 2020 is subject to high uncertainties, depending very much on whether the spread of the novel coronavirus infection can be kept under control and how the local social incidents unfold.

(2) Total shopping expenditure by visitors is obtained from the Departing Visitor Survey compiled by the Hong Kong Tourism Board. Retail sales value is obtained from the Monthly Survey of Retail Sales compiled by the Census and Statistics Department.

The external sector

1.3 *Total exports of goods* compiled under the GDP accounting framework fell by 4.7% in real terms in 2019, in contrast to the 3.5% growth in 2018, as the global economic slowdown and US-Mainland trade tensions dampened global trading and investment activities. The year-on-year decline widened successively in the first three quarters of 2019, before narrowing in the fourth quarter which was helped by a low base of comparison.

1.4 Analysed by major market by reference to external merchandise trade statistics, exports to the US slackened noticeably to register a double-digit decrease in 2019, weighed by the US' additional tariffs on a wide range of Mainland products and weakened import demand of the US. Exports to the EU recorded a fall amid modest economic growth there. Exports to many Asian markets also worsened, as softened global economic growth and uncertainties stemming from US-Mainland trade tensions weighed on regional trading and production activities. Exports to the Mainland and Vietnam turned to a decline. Exports to India continued to fall sharply. As for the higher-income economies, exports to Japan showed an enlarged fall. Exports to Korea switched to a mild decline. Exports to Singapore still grew appreciably for 2019 as a whole despite some moderation in the second half of the year, while those to Taiwan resumed modest growth.

1.5 *Exports of services* deteriorated sharply and fell by 10.4% in real terms in 2019 after the solid expansion of 4.6% in 2018. This represented the largest annual decline on record. The fall was very steep in the second half of the year, when the social unrest dealt a severe blow to inbound tourism. Exports of travel services plunged by 21.0% for the year as a whole, the largest annual decline on record. Other services exports were also dragged by mounting external headwinds. Specifically, exports of transport services turned to a visible fall, reflecting subdued cargo and passenger flows. Exports of financial as well as business and other services also declined, as cross-border financial and commercial activities weakened amid softening global economic growth.

Table 1.1 : Gross Domestic Product, its main expenditure components and the main price indicators (year-on-year rate of change (%))

	2018#	2019#	2018				2019			
			Q1#	Q2#	Q3#	Q4#	Q1#	Q2#	Q3#	Q4#
Change in real terms of GDP and its main expenditure components (%)										
Private consumption expenditure	5.3	-1.1	8.7	5.8	4.5	2.5	0.6	1.2	-3.3	-2.9
			(2.8)	(-0.6)	(0.4)	(-0.1)	(0.8)	(0.1)	(-4.1)	(0.5)
Government consumption expenditure	4.3	5.1	4.2	4.5	3.4	5.1	4.5	3.9	5.9	6.0
			(1.6)	(1.4)	(0.5)	(1.5)	(1.0)	(0.8)	(2.6)	(1.6)
Gross domestic fixed capital formation	1.7	-12.3	4.8	1.4	8.1	-6.2	-5.4	-11.4	-15.2	-16.7
Building and construction	-0.5	-6.1	3.3	-0.7	0.8	-5.4	-4.2	-10.4	-3.7	-6.2
Costs of ownership transfer	-11.2	-13.2	5.1	-1.5	1.2	-42.5	-20.3	-13.0	-21.8	7.2
Machinery, equipment and intellectual property products	8.8	-20.0	6.1	4.9	20.2	4.1	-1.9	-12.2	-26.4	-32.2
Total exports of goods&	3.5	-4.7	4.9	4.5	5.0	-0.2	-3.7	-5.3	-6.9	-2.7
			(1.6)	(0.1)	(0.7)	(-2.8)	(-1.7)	(-1.6)	(-1.2)	(1.9)
Imports of goods&	4.7	-7.4	6.6	6.1	7.5	-0.8	-4.2	-6.7	-11.0	-7.3
			(1.4)	(0.1)	(2.8)	(-4.8)	(-2.2)	(-2.6)	(-2.0)	(-0.5)
Exports of services&	4.6	-10.4	7.5	5.4	2.6	3.2	-0.4	-1.3	-14.4	-24.7
			(4.7)	(-2.8)	(*)	(1.2)	(1.0)	(-3.6)	(-13.4)	(-11.0)
Imports of services&	2.7	-2.3	4.5	1.0	2.9	2.6	-1.1	1.7	-4.4	-4.9
			(4.1)	(-2.2)	(0.3)	(0.3)	(0.4)	(0.4)	(-5.7)	(*)
Gross Domestic Product	**2.9**	**-1.2**	**4.5**	**3.4**	**2.6**	**1.1**	**0.7**	**0.4**	**-2.8**	**-2.9**
			(1.5)	**(-0.1)**	**(0.1)**	**(-0.3)**	**(0.9)**	**(-0.4)**	**(-3.0)**	**(-0.3)**
Change in the main price indicators (%)										
GDP deflator	**3.6**	**2.4**	**3.7**	**3.7**	**3.7**	**3.4**	**2.8**	**2.9**	**2.3**	**1.7**
			(1.5)	**(0.9)**	**(0.6)**	**(0.5)**	**(0.6)**	**(0.9)**	**(0.2)**	**(*)**
Composite CPI										
Headline	**2.4**	**2.9**	**2.4**	**2.1**	**2.5**	**2.6**	**2.2**	**3.0**	**3.3**	**3.0**
			(0.8)	**(0.4)**	**(0.6)**	**(0.8)**	**(0.4)**	**(1.2)**	**(0.9)**	**(0.5)**
Underlying^	**2.6**	**3.0**	**2.4**	**2.4**	**2.8**	**2.9**	**2.7**	**2.9**	**3.3**	**3.0**
			(0.8)	**(0.7)**	**(0.6)**	**(0.7)**	**(0.6)**	**(1.0)**	**(1.0)**	**(0.4)**
Change in **nominal GDP** *(%)*	**6.6**	**1.2**	**8.4**	**7.2**	**6.5**	**4.6**	**3.5**	**3.3**	**-0.5**	**-1.2**

Notes : Figures are subject to revision later on as more data become available. The seasonally adjusted quarter-to-quarter rate of change is not applicable to gross domestic fixed capital formation, as no clear seasonal pattern is found for this category due to the presence of considerable short term fluctuations.

(&) Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

(#) Revised figures.

( ) Seasonally adjusted quarter-to-quarter rate of change.

(^) After netting out the effects of Government's one-off relief measures.

(*) Change within ±0.05%.

The domestic sector

1.6 Domestic demand retreated in 2019. *Private consumption expenditure* fell by 1.1% in real terms for 2019 as a whole after growing by 5.3% in 2018, marking its first annual decline since 2003. Following the modest growth in the first half of the year, private consumption expenditure deteriorated sharply to record a year-on-year decline in the second half, as the local social incidents with violence caused severe disruptions to consumption-related activities and dampened consumer sentiment already weakened by subdued economic conditions. Meanwhile, *government consumption expenditure* grew solidly by 5.1% in real terms in 2019, after expanding by 4.3% growth in 2018.

Table 1.2 : Consumer spending by major component[(a)]
(year-on-year rate of change in real terms (%))

		Total consumer spending in the domestic market[(a)]	*Of which :* Food	Durables	Non-durables	Services	Residents' expenditure abroad	Visitor spending	Private consumption expenditure[(b)]
2018	Annual	5.9	1.6	18.2	8.9	4.0	3.4	8.8	5.3
	H1	8.3	3.5	28.8	11.7	5.3	1.7	11.6	7.2
	H2	3.7	-0.4	10.2	6.4	2.7	5.0	6.2	3.5
	Q1	9.5	3.6	30.5	11.8	6.7	6.1	12.6	8.7
	Q2	7.1	3.3	26.6	11.6	4.1	-2.4	10.6	5.8
	Q3	4.7	0.4	12.8	8.4	3.1	3.3	4.9	4.5
	Q4	2.9	-1.1	8.2	4.7	2.2	6.8	7.3	2.5
2019	Annual	-4.3	-8.0	-13.4	-11.3	0.8	3.7	-20.7	-1.1
	H1	0.7	-3.2	-6.3	2.3	2.1	5.4	1.8	0.9
	H2	-9.2	-13.1	-19.9	-24.5	-0.4	2.0	-42.3	-3.1
	Q1	0.9	-1.2	-6.1	4.4	1.3	-0.4	2.2	0.6
	Q2	0.4	-4.8	-6.4	0.1	2.8	11.4	1.3	1.2
	Q3	-7.7	-12.1	-16.3	-21.9	*	2.4	-31.0	-3.3
	Q4	-10.7	-14.2	-22.6	-26.7	-0.8	1.6	-51.9	-2.9

Notes : (a) Consumer spending in the domestic market comprises both local consumer and visitor spending.

(b) Private consumption expenditure is obtained by deducting visitor spending from total consumer spending in the domestic market, and adding back residents' expenditure abroad.

(*) Change within ±0.05%.

Diagram 1.2 : Private consumption expenditure deteriorated sharply in the second half

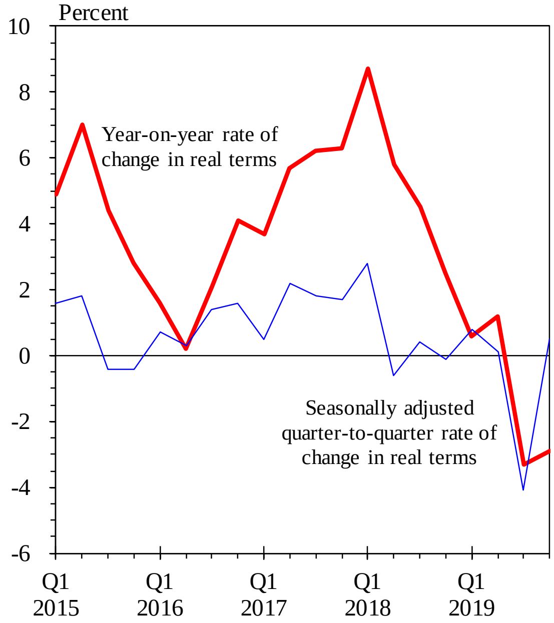
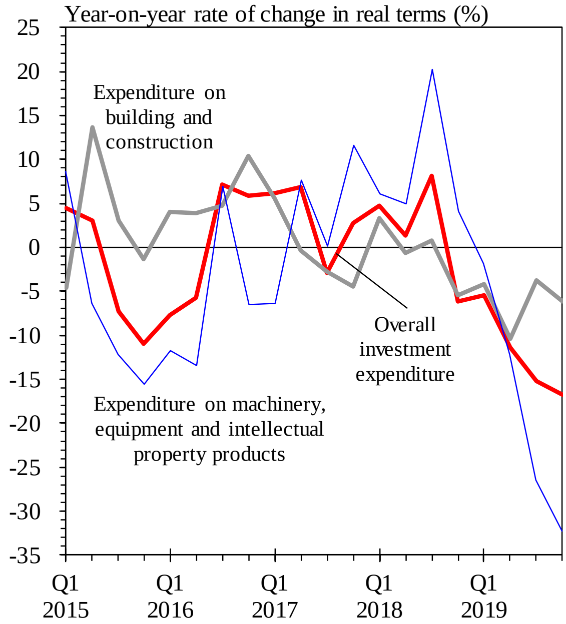


Diagram 1.3 : Overall investment spending plummeted in 2019



1.7 Overall investment spending in terms of *gross domestic fixed capital formation* plummeted by 12.3% in real terms in 2019 after its 1.7% growth in 2018, marking the biggest annual drop since 1999. Expenditure on acquisitions of machinery, equipment and intellectual property products plunged by 20.0%, as business sentiment turned very pessimistic amid heightened US-Mainland trade tensions and also the local social incidents with increasing violence (See ***Box 1.2***). Meanwhile, expenditure on building and construction expenditure recorded a fall of 6.1%. Private sector building and construction activities turned to a decline alongside worsening economic conditions. Public sector building and construction works shrank further, as new projects had yet to generate sufficient output to offset the completion of some major infrastructure projects. Separately, the costs of ownership transfer fell amid declining property transactions especially in the non-residential segments.

Box 1.2

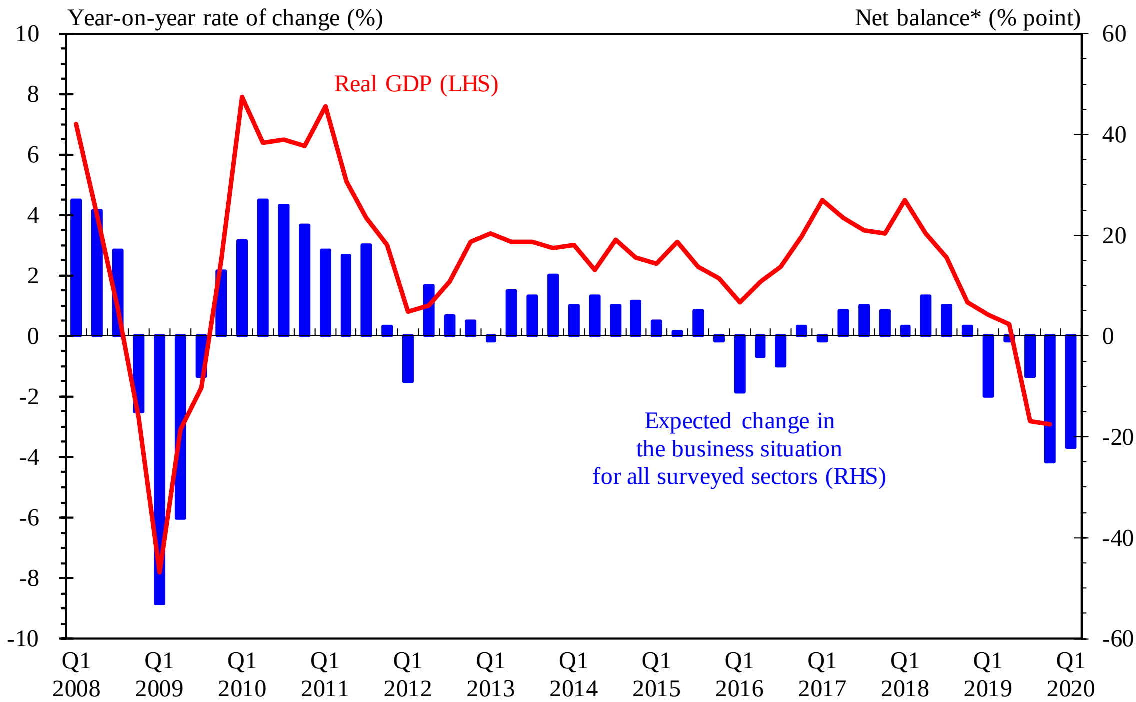
Business sentiment in Hong Kong

This box article gives a general overview of the prevailing business sentiment in Hong Kong, based on results from various surveys that are available in the public domain. Latest results of various surveys all pointed to continued weakness in business sentiment in recent months.

According to the results of the Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey (QBTS)(1) conducted during early December 2019 to mid-January 2020, business sentiment among large enterprises in Hong Kong remained very pessimistic (***Chart 1***). The proportion of large enterprises expecting a weaker business situation in the first quarter of 2020 as compared to the fourth quarter of 2019 outweighed the proportion of those expecting a better situation by 22 percentage points (i.e. a net balance of -22), broadly similar to the net balance of -25 in the previous quarter.

Business sentiment among large enterprises across all surveyed sectors were pessimistic amid lingering concerns on the local social incidents involving violence and US-Mainland trade tensions (***Table 1***). Large enterprises in "accommodation and food services" and "retail" were particularly gloomy about their business situation, as they were hard hit by the local social incidents that caused severe disruptions to consumption- and tourism-related activities. Meanwhile, trade-related sectors continued to cite US-Mainland trade tensions as a key factor leading to worsening business situation, with the net balances in "import/export trade and wholesale", "manufacturing", "transportation, storage and courier services" all staying deep in the negative zone. Overall hiring sentiment of large enterprises also remained weak, with many surveyed sectors expecting employment to decline in the first quarter of 2020 (***Table 2***).

Chart 1 : Business sentiment among large enterprises remained very pessimistic



Note : (*) Net balance indicates the direction of expected change in the business situation versus the preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "better" over that choosing "worse". A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.

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(1) The Quarterly Business Tendency Survey collected views from around 500-600 large establishments on their near-term business outlook. Respondents were asked to exclude seasonal influences in their responses.

Box 1.2 (Cont'd)

Table 1 : Large enterprises in all sectors expected business situation to worsen in Q1 2020

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2018	2019				2020
	Q4	Q1	Q2	Q3	Q4	Q1
Manufacturing	-1	-3	-1	-8	-24	-27
Construction	-26	-23	-22	-7	-45	-28
Import/export trade and wholesale	-5	-23	-8	-8	-23	-23
Retail	+19	-6	-8	-24	-61	-39
Accommodation and food services	+17	-5	-9	-17	-44	-42
Transportation, storage and courier services	+8	-13	-1	-9	-26	-33
Information and communications	+16	-3	+13	+10	+6	-2
Financing and insurance	+13	-8	+9	-6	-21	-16
Real estate	-6	-5	+6	-10	-12	-18
Professional and business services	-2	-7	-4	-3	-25	-13
All sectors above	+2	-12	-1	-8	-25	-22

Note: (*) Net balance indicates the direction of expected change in the business situation versus the preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "better" over that choosing "worse". A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.

Table 2 : Hiring sentiment of large enterprises remained weak across many sectors

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2018	2019				2020
	Q4	Q1	Q2	Q3	Q4	Q1
Manufacturing	+13	+12	-6	+8	+5	+3
Construction	-6	-3	-6	+10	-20	-25
Import/export trade and wholesale	-1	-6	-4	-5	-9	-10
Retail	+13	+4	+1	0	-21	-19
Accommodation and food services	+14	+9	+12	+19	-13	-9
Transportation, storage and courier services	+16	+11	+6	+6	0	+1
Information and communications	+15	-11	+11	-3	-6	0
Financing and insurance	+12	+20	+12	+9	+11	+4
Real estate	+18	+7	+6	+7	-6	-13
Professional and business services	+3	-4	-8	+2	-2	-8
All sectors above	+8	+3	+1	+4	-7	-8

Note: (*) Net balance indicates the direction of expected change in the number of persons engaged versus the preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "up" over that choosing "down". A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.

As for small and medium-sized enterprises (SMEs), the C&SD compiles a set of diffusion indices on a monthly basis(2) to gauge the general direction of change in their views on business situation versus the preceding month. The overall index on business receipts, at 44.1 in January 2020, stayed deep below the 50 divide, though gradually revived from the record low of 32.1 in August 2019 (***Chart 2a***). Nevertheless, the employment situation of the SMEs surveyed held relatively stable as a number of employers appeared to avoid laying off staff, while credit conditions remained highly accommodative. Likewise, the Standard Chartered Hong Kong SME Leading Business Index(3) stayed in the contractionary zone, but revived somewhat from the record low in the previous round.

As for other surveys in the public domain, the Hong Kong Trade Development Council's Export Index(4) plunged from 27.4 in the third quarter to 18.8 in the fourth quarter of 2019 (***Chart 2b***), a fresh record low since the index was compiled in 2006. Among the traders surveyed in this latest round which was conducted in mid-November 2019, 58.5% of them believed that US-Mainland trade tensions would negatively affect their near-term export performance, little changed from the 61.0% in the preceding quarter. Separately, the Markit Purchasing Managers' Index (PMI) of Hong Kong(5), which gauges the performance of the private sector's business activity, stayed below the 50 boom-bust threshold at 46.8 in January 2020, though rising back somewhat from the recent low in late 2019.

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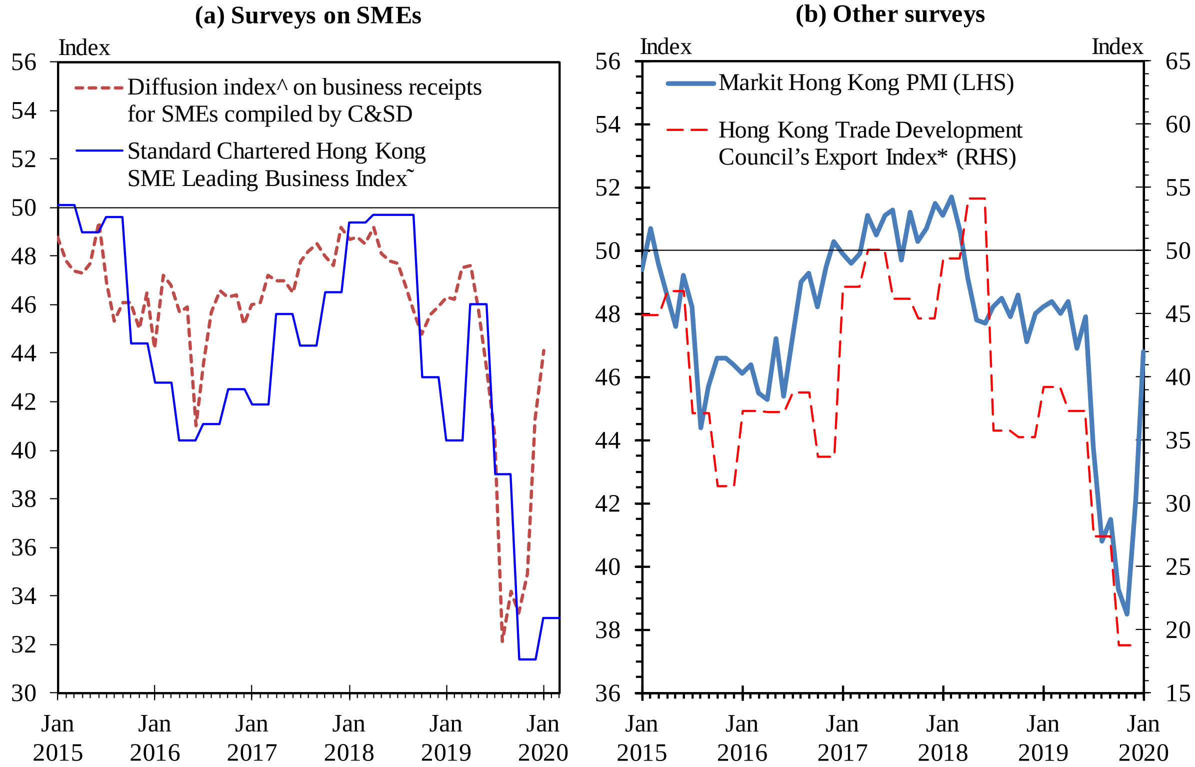
(2) It refers to the results from the Monthly Survey on the Business Situation of SMEs that solicits feedbacks from a panel sample of around 600 SMEs each month.

(3) Conducted independently by Hong Kong Productivity Council, the quarterly survey enables the public and SMEs to gain insights into the forthcoming business climate for better forward planning. The Overall Index comprises five areas, including local SMEs' outlook on the "Recruitment Sentiment", "Investment Sentiment", "Business Condition", "Profit Margin", and "Global Economy" for the next quarter.

Box 1.2 (Cont'd)

Chart 2 : Most of the other survey indicators also pointed to generally pessimistic business sentiment



Notes: (^) The diffusion index is computed by adding the percentage of SMEs reporting "up" to one half of the percentage of SMEs reporting "same". A diffusion index reading above 50 indicates that the business condition is generally favourable, whereas an index below 50 indicates otherwise. Respondents were requested to exclude seasonal effects in reporting their views.

(~) Launched in Q3 2012 and quarterly data.

(*) A reading above 50 indicates an upward trend and an optimistic outlook, while a reading below 50 indicates a downward trend and a pessimistic outlook.

It is worth pointing out that these surveys are essentially opinion-based, thereby unavoidably subject to various limitations (e.g. results are not directly comparable) and hence the results should be interpreted with care. Still, these survey findings taken together suggest that business sentiment in Hong Kong remained generally pessimistic on entering 2020. Meanwhile, it should particularly be noted that the above results have yet to reflect the adverse impact of the novel coronavirus infection. Given the recent developments, the threat of the infection should have notable impact on economic sentiment in the near term. The Government will stay vigilant and closely monitor the various external and domestic developments, for their possible ramifications on Hong Kong's business and employment situation.

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(4) The Hong Kong Trade Development Council's Export Index is designed to gauge the prospects of the near-term export performance of Hong Kong traders. The business confidence survey is conducted on a quarterly basis, with 500 participating Hong Kong traders from six major industry sectors interviewed, namely electronics, clothing, jewellery, timepieces, toys and machinery.

(5) According to the press release by IHS Markit, the Markit Hong Kong PMI is compiled according to monthly replies to questionnaires sent to purchasing executives in around 400 companies. It is a composite index based on five individual indices with the following weights: New Orders (30%); Output (25%); Employment (20%); Suppliers' Delivery Times (15%); and Stocks of Purchases (10%), with the Suppliers' Delivery Times index inverted so that it moves in a comparable direction. Survey responses reflect the change, if any, in the prevailing month compared to the previous month.

The labour sector

1.8 The labour market was increasingly under pressure during 2019. Having remained largely stable in the first half of the year despite some signs of easing labour demand, the unemployment situation deteriorated in the second half as the economy fell into recession. The *seasonally adjusted unemployment rate* stayed at a 20-year low of 2.8% in the first and second quarters, then went up to 2.9% in the third quarter and noticeably further to 3.3% in the fourth quarter. For the year as a whole, the unemployment rate increased by 0.2 percentage point to 3.0%, while the underemployment rate stayed unchanged at 1.1%. The unemployment rates of sectors hard hit by the local social incidents, particularly retail, accommodation and food services sectors, witnessed more visible increases. Total employment also fell visibly in the fourth quarter. Earnings of low-income workers continued to increase throughout 2019, but household incomes weakened in the second half of the year.

The asset markets

1.9 The *local stock market* exhibited considerable volatility in 2019, as market sentiment swung along with the abrupt changes in external and local situations. Bolstered by the rallies in major overseas stock markets, the Hang Seng Index (HSI) staged a strong rebound in the early part of the year to a high of 30 157 in early April. Yet the HSI pared most of the gains by early June due to concerns over the re-escalation of the US-Mainland trade tensions at that time, and traded within 25 281 to 28 876 during the rest of the year amid softening global economic growth, fluid US-Mainland trade relations, the local social incidents, and their impacts on local economic outlook. The HSI closed the year at 28 190, 9.1% higher than end-2018. Reflecting the generally more cautious investor sentiment, average daily turnover in the securities market plummeted by 18.9% to $87.2 billion in 2019. Nonetheless, the total amount of initial public offering (IPO) funds raised in the Hong Kong stock market rose by 8.6% to $312.9 billion, making Hong Kong once again the largest IPO centre in the world. Meanwhile, credit growth, in terms of the year-on-year increase in loans for use in Hong Kong (including trade finance), accelerated to 7.1% at end-December 2019, from 5.4% a year earlier.

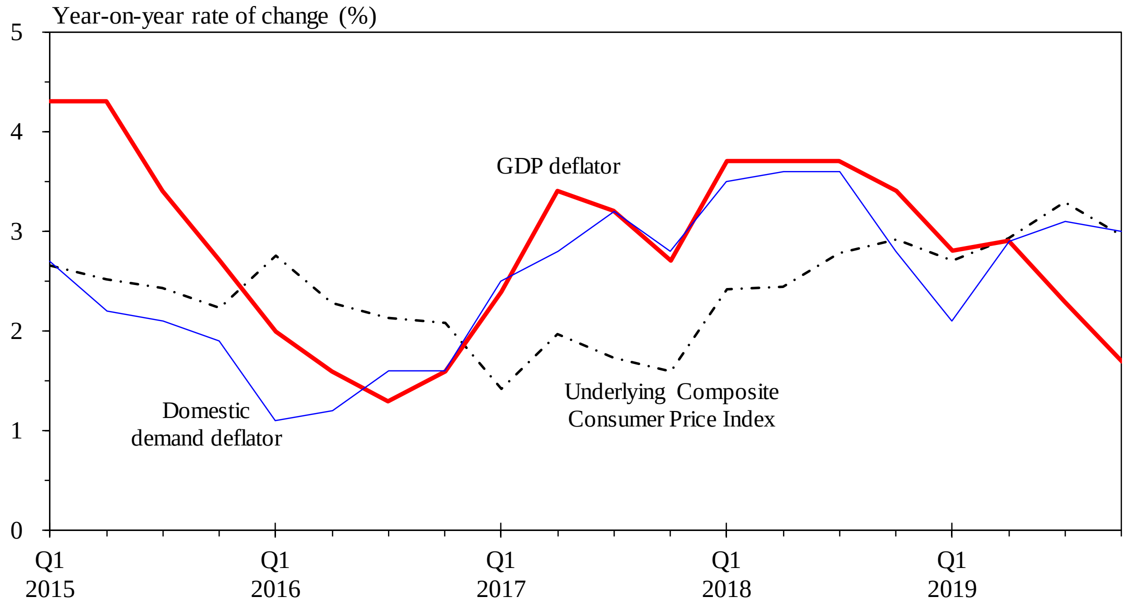
1.10 The *residential property market* quietened visibly since June, having stayed generally active during the first five months of 2019. The number of transactions, in terms of the total number of sales and purchase agreements for residential property received by the Land Registry, rose by 4% to 59 797 for 2019 as a whole, mainly reflecting the buoyant trading situation in the first five months. While flat prices generally softened since June, they on average still recorded a cumulative increase of 5% during the whole year. Flat prices in December 2019 exceeded the 1997 peak by 119%. The index of home purchase affordability stayed elevated at around 72% in the fourth quarter, significantly above the long-term average of 44% over 1999-2018. The leasing market also cooled off, with flat rentals reverting to a decline since the latter part of the third quarter. As a result, flat rentals in December 2019 on average retreated by 5% from the recent peak in August 2019 and were 2% lower than December 2018. As for commercial and industrial property, rentals for retail premises in December 2019 fell by 5% from a year earlier amid the sharp deterioration in retail business. Over the same period, rentals for offices and flatted factories were little changed.

Inflation

1.11 Consumer price inflation went up in 2019, primarily due to a sharp increase in pork prices amid reduced supply of fresh pork since May. Price pressures on other major underlying consumer price index components were largely moderate. Netting out the effects of the Government's one-off relief measures, *underlying consumer price inflation rate* climbed from 2.6% in 2018 to 3.0% in 2019. *Headline consumer price inflation* likewise went up from 2.4% to 2.9%. Domestically, among the underlying consumer price index components, the increase in private housing rentals stayed on an easing trend in 2019. As to cost pressures, labour wages and earnings stayed on the rise but at a somewhat moderated pace in the latter part of the year, while pressures on commercial rental costs abated amid the economic downturn. External price pressures receded through 2019, thanks to the moderation in inflation rates in many of our major import sources and generally soft international commodity and energy prices amid the global economic slowdown. The strengthening of the Hong Kong dollar along with the US dollar against other major currencies during the year also contributed to the lower imported inflation.

1.12 As a broad measure of the overall change in prices in the economy, the increase in *GDP deflator* moderated from 3.6% in 2018 to 2.4% in 2019. The terms of trade deteriorated slightly in 2019, as the rise in export prices was somewhat slower than that in import prices. Taking out the external trade components, the domestic demand deflator rose by 2.7% in 2019, 0.7 percentage point lower than the corresponding increase in 2018.

Diagram 1.4 : Consumer price inflation went up in 2019, primarily due to a surge in pork prices



Note : The year-on-year rates of change of the Composite Consumer Price Index from the fourth quarter of 2015 onwards are computed from the new 2014/15-based series, and those before are from the old 2009/10-based series.

GDP by major economic sector

1.13 The net output of the services sector contracted by 1.7% in real terms in the third quarter of 2019 from a year earlier amid the abrupt deterioration of economic conditions, having expanded by 1.8% and 1.2% in the first and second quarters respectively. For the first three quarters combined, the services sector grew modestly by 0.4%, visibly lower than its 3.1% growth in 2018.

1.14 The net outputs of most major service sectors showed moderation of varying degrees in the third quarter when compared to the first half of the year. Specifically, the net output of import and export trade saw a steeper fall in the third quarter in the face of the austere external environment, and that of transportation, storage, postal and courier services also turned to a decrease. The net outputs of wholesale and retail trades as well as accommodation and food services plunged, reflecting the severe impacts of the local social incidents on tourism- and consumption-related activities. The net output of real estate, which covers activities of private sector developers and property agencies, weakened to a marginal increase. Meanwhile, the net outputs of professional and business services as well as public administration, social and personal services posted slower increases. On the other hand, the net outputs of financing and insurance as well as information and communications continued to see solid increases. As for the secondary sector, the net output of manufacturing sector rose modestly, while that of construction sector continued to decline.

Table 1.3 : GDP by economic activity[(a)]
(year-on-year rate of change in real terms (%))

	2018	2019	2018				2019		
		Q1-Q3	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Manufacturing	1.3	0.7	1.1	1.6	1.2	1.2	1.4	0.4	0.5
Construction	3.3	-5.8	9.4	2.6	4.1	-2.6	-3.6	-10.8	-3.1
Services[(b)]	3.1	0.4	4.1	3.5	2.8	2.1	1.8	1.2	-1.7
Import/export, wholesale and retail trades	4.2	-5.3	5.8	5.4	4.8	1.6	-1.2	-3.7	-10.0
Import and export trade	3.8	-4.3	4.7	4.4	4.9	1.7	-0.8	-3.3	-8.0
Wholesale and retail trades	6.0	-9.6	10.9	9.6	4.2	1.3	-2.9	-5.4	-19.9
Accommodation[(c)] and food services	5.9	-4.0	8.9	6.3	5.9	2.7	2.8	-1.3	-13.8
Transportation, storage, postal and courier services	2.5	0.6	4.3	3.0	0.3	2.5	2.3	1.9	-2.2
Transportation and storage	2.6	0.9	4.2	3.3	0.6	2.3	2.8	2.3	-2.4
Postal and courier services	1.0	-3.3	6.0	-2.1	-5.4	4.3	-5.8	-4.3	0.8
Information and communications	4.1	5.4	3.3	3.8	3.8	5.4	4.9	5.7	5.5
Financing and insurance	4.0	3.0	6.3	4.1	3.0	2.8	2.6	3.1	3.3
Real estate, professional and business services	-0.4	1.4	0.3	*	-0.6	-1.1	1.9	2.0	0.4
Real estate	-3.1	0.9	-2.6	-2.5	-2.7	-4.7	1.4	1.0	0.2
Professional and business services	2.0	1.9	3.0	2.1	1.1	1.8	2.2	2.8	0.5
Public administration, social and personal services	3.6	3.1	3.8	3.2	3.6	3.8	3.6	3.6	2.0

Notes : Figures are subject to revision later on as more data become available.

(a) The GDP figures shown in this table are compiled from the production approach, while those shown in Table 1.1 are compiled from the expenditure approach. For details, see Note (1) to this chapter.

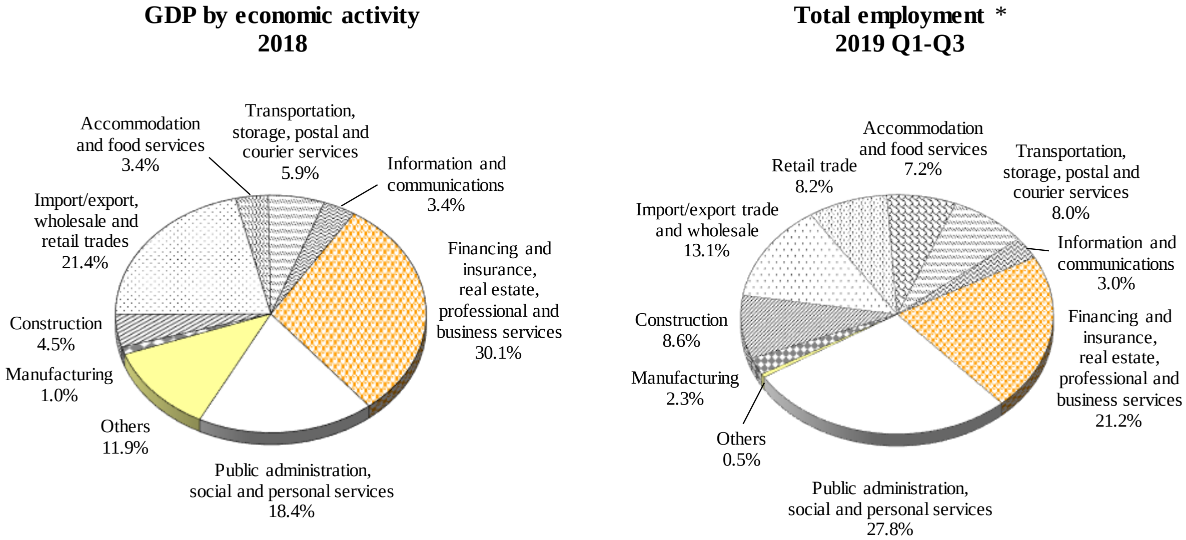
(b) In the context of value-added contribution to GDP, the services sectors include ownership of premises as well, which is analytically a service activity.

(c) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

(*) Change within ±0.05%.

1.15 The services sector is the mainstay of the Hong Kong economy, accounting for 93.1% of GDP in 2018 and providing 88.6% of total employment in the first three quarters of 2019. While the local social incidents have dealt a heavy blow to the economy in the second half of 2019, Hong Kong's core competitiveness remained intact. Hong Kong is still an international financial centre and one of the best places to do business in the world, upholding strengths such as free movement of capital, goods, information and talents; simple tax system with low tax rates; sound regulatory system; and the rule of law and an independent judiciary. Given its strong competitive edges, Hong Kong's services sector is well positioned to benefit from the vibrant development of emerging Asian economies, particularly the Mainland, which is set to remain the global growth engine in the years to come. The Government will continue to overcome the supply side constraints, raise productivity, enhance our competitive advantages, and expand market coverage in order to support inclusive growth and sustainable development in the long term.

Diagram 1.5 : The services sector continued to be the key driver of the economy



Note : (*) Figures refer to the Composite Employment Estimates, which are compiled based on results of the General Household Survey and the Quarterly Survey of Employment and Vacancies. Figures for 2019 are averages for the first three quarters of the year.

Other economic developments

1.16 The Chief Executive delivered the 2019 Policy Address in October 2019, focusing on four aspects of work, namely housing, land supply, improving people's livelihood and economic development. On housing and land supply, various measures and plans to increase the supply of housing land in a persistent manner and help different groups meet their home ownership aspirations were announced. On improving people's livelihood, the Chief Executive advocated cross-sector and cross-profession collaboration as well as public-private partnership, adhering to the principles of pro-child, pro-family, pro-work, respecting the choices of beneficiaries and embracing public health. On economic development, the Government, while maintaining a free market economy, proactively plays the roles of "facilitator" and "promoter" and makes every effort to increase land supply, invest in nurturing talent, promote external affairs, improve the business environment and implement tax concession measures with a view to enhancing the competitiveness of Hong Kong. In parallel, the Government capitalises on the opportunities brought by the Belt & Road Initiative and the development of the Guangdong-Hong Kong-Macao Greater Bay Area, with the aim of creating new growth areas for the Hong Kong economy and opening up more markets for Hong Kong's enterprises and professional services.

1.17 The Government announced a package of one-off relief measures worth $42.9 billion as well as other spending initiatives in the 2019-20 Budget to support enterprises, safeguard jobs, stabilise the economy and strengthen livelihoods. In view of the increased economic headwinds, the Government announced four rounds of helping measures from August to December 2019 worth over $25 billion in total. Measures to support enterprises, amongst others, included waivers of certain government fees and charges, reducing the rental for most short-term tenancies of government land, reduction of water and sewage charges, provision of electricity subsidies and further concession of rates for non-domestic properties, fuel subsidy for the transport trades, fee waiving measures for the tourism and securities industries, and rental subsidy for recycling industry. The Government also introduced a new loan scheme with a 90% guarantee under the SME Financing Guarantee Scheme, and made additional injections to the Dedicated Fund on Branding, Upgrading and Domestic Sales and the SME Export Marketing Fund for implementing further enhancements to help SMEs grasp business opportunities. On alleviating people's financial burden, measures including an enhanced rate for tax concessions, electricity subsidies for domestic accounts, additional allowances to social security recipients, allowances for students, and waiver of one month's public housing rental were announced. Targeted measures were also introduced to support sectors hard hit by the economic downturn. These measures (including the budget measures) are estimated to have a stimulus effect on the Hong Kong economy of around 2% of GDP.

1.18 Hong Kong's competitiveness and economic freedom have been highly regarded internationally. Hong Kong was once again ranked as the world's second most competitive economy in the International Institute for Management Development's *World Competitiveness Yearbook 2019*, and was ranked the third globally in the World Economic Forum's 2019 *Global Competitiveness Report*, up four places from the preceding year. Moreover, Hong Kong continued to be ranked as the world's freest economy by the Fraser Institute since its report on economic freedom was first published in 1996. As regards the ease of doing business, Hong Kong was ranked the third globally by the World Bank's *Doing Business 2020* report, up one place from the previous report. Over the past ten years, Hong Kong has maintained its position within the top five in the *Doing Business* report, re-affirming our favourable business environment for overseas companies to set up their regional headquarters and offices, and for all businesses to flourish. Indeed, the number of business operations in Hong Kong with parent companies overseas and in the Mainland reached a record high of 9 040 in 2019, up 9.9% from 2017.

Notes :

(1) The Gross Domestic Product (GDP) is an overall measure of net output produced within an economy in a specified period, such as a calendar year or a quarter, before deducting the consumption of fixed capital. In accordance with the expenditure approach to its estimation, GDP is compiled as total final expenditures on goods and services (including private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, changes in inventories, and exports of goods and services), less imports of goods and services.

(2) The seasonally adjusted quarter-to-quarter GDP series, by removing the variations that occur at about the same time and in about the same magnitude each year, provides another perspective for discerning the trend, particularly in regard to turning points. A detailed examination reveals the presence of seasonality in the overall GDP and in some of its main components, including private consumption expenditure, government consumption expenditure, exports of goods, imports of goods, exports of services, and imports of services. However, due to the presence of considerable short-term fluctuations, no clear seasonal pattern is found in gross domestic fixed capital formation. Therefore, the seasonally adjusted series of GDP is compiled separately at the overall level, rather than summing up from its main components.

CHAPTER 2 : ECONOMIC OUTLOOK FOR 2020 AND THE MEDIUM TERM

Summary

- *Global economic growth in 2019 was the weakest since the global financial crisis of 2008-2009, as trade tensions and other uncertainties weighed on exports and undermined investment confidence. Major economies experienced a synchronised growth slowdown before showing some signs of stabilisation towards the end of the year. In mid-January the International Monetary Fund (IMF) projected that the global economy would improve slightly in 2020, mainly on account of some modest pick-up in emerging market economies. However, the spread of the novel coronavirus infection of late has become a new cause for deep concern. The infection, through disrupting a wide range of economic activities and dampening economic sentiment, has exerted, and will continue to exert, downward pressure on the Mainland economy, with repercussions on global supply chains in the near term. This, together with the measures taken by authorities worldwide to curb the further spread of infection, will also affect travel, manufacturing and trading activities in the region. It appears rather difficult for global economic growth to attain the IMF's forecast in 2020.*

- *Apart from the development of the novel coronavirus infection, the global economic outlook is also subject to a number of downside risks. If US-Mainland trade tensions re-escalate, global manufacturing and investment activity would turn out to be weaker than expected. The disputes on the technology front, if intensified, would also have knock-on effects on global supply chains. Other possibilities such as a disorderly Brexit by end of this year, a build-up of financial vulnerabilities in a low interest rate environment and heightened geopolitical tensions in the Middle East also warrant attention.*

- *The recent easing in US-Mainland trade tensions and accommodative moves by central banks in the region should provide support to the Asian economies in 2020. However, with the infection and related control measures hitting regional production activities and trade flows, Hong Kong's exports of goods will inevitably be affected. Moreover, uncertainties surrounding the US-Mainland economic and technology relations remain when the two sides proceed to negotiate for a phase two deal. The materialisation of the various downside risks to the global outlook could result in a more challenging external environment for Hong Kong. On the other hand, if the US-Mainland trade negotiations lead to some rollback of existing trade barriers and the spread of the coronavirus inflection in the region is put under control quickly, there would be some upside to Hong Kong's external*

trade performance. On Hong Kong's exports of services, the outlook is even more gloomy. In particular, the recovery of exports of travel services will likely take time, hinging critically on the control of the coronavirus infection as well as the development of the local social incidents.

- *The outlook for domestic demand in 2020 is also subdued, with the threat of the new coronavirus infection severely hurting overall economic sentiment and disrupting such economic activities as transportation, trade, and tourism- and consumption-related activities. Keeping the infection under control and ending the violence in the local social incidents are thus essential to the recovery of domestic consumption and investment activities. If the impact of the novel coronavirus infection turns out to be more severe and durable, or if the violence in the local social incidents intensifies again, economic confidence would be severely debilitated, dragging the economy down to the extent even worse than what happened in the second half of last year, with significant repercussions on unemployment and livelihood of the grassroots workers.*

- *In sum, the near-term outlook for the Hong Kong economy is extremely challenging, and the probability of another year of economic contraction has notably increased. Taking into account the various headwinds and possible boosting effect from the support measures, the Hong Kong economy is forecast to grow by -1.5% to 0.5% in 2020. This compares with the 1.2% contraction in 2019 and the trend growth of 2.9% in the past decade. Indeed, the range forecast is still subject to downside risks, particularly if the impact of the novel coronavirus infection turns out to last longer than expected, or if the local social incidents with violence persist.*

- *Consumer price inflation is likely to ease somewhat in 2020. External price pressures should remain largely contained as inflation rates in our major import sources are expected to be held in check. Locally, the moderation in fresh-letting residential rentals since late 2018 should help contain overall inflation at least in the early part of 2020. Domestic cost pressures are likely to be kept at bay amid sub-par economic conditions and softening wage growth. Moreover, the upward pressure on consumer price inflation from the surge in pork prices is likely to wane after May 2020 upon a high base of comparison. The underlying Composite Consumer Price Index is forecast to increase by 2.5% for 2020 as a whole, down from 3.0% in 2019.*

- *The medium-term outlook for the Hong Kong economy is still positive, notwithstanding the prevailing challenges and uncertainties. Asia, powered by the Mainland and other emerging market economies with great potential, will continue to be an important global growth driver in the years* *to come, providing enormous business opportunities for Hong Kong and the world at large. Riding on our strong competitive edges and superb geographical location, Hong Kong is well-positioned to capitalise on the development. Going forward, the Government will continue to play its role of "facilitator" and "promoter" in a proactive manner while upholding Hong Kong's strong institutions and core competitiveness. The Government will spare no effort to tackle the supply-side constraints, spearhead innovation and technology, invest in human capital and infrastructure, and improve the business environment with a view to fostering inclusive growth and sustainable development and overcoming the challenges from population ageing. In parallel, the Government will capitalise on the opportunities brought about by the Belt & Road Initiative and the development of the Guangdong-Hong Kong-Macao Greater Bay Area, creating new growth areas for our economy. Overall, the economy is forecast to grow at a trend rate of 2.8% per annum from 2021 to 2024. The trend rate of underlying consumer price inflation is forecast at 2.5% per annum over the medium term.*

Major external developments

2.1 The global economy entered 2019 at a weak pace, and major economies experienced a synchronised growth slowdown before showing some signs of stabilisation towards the end of the year. The twists and turns of US-Mainland trade tensions have not only curbed international trade flows, but have also taken a toll on global sentiment with clear impacts on investment activities and financial markets. The Mainland economy attained its growth target despite the downward pressure from a challenging trading environment. For the ASEAN emerging market economies, faltering exports and softer investment weighed on growth, yet consumption remained largely resilient and provided a buffer. Accommodative moves by major central banks in the second half of the year have to some extent cushioned the blow, but left little room for manoeuvre in the event of a further downturn.

2.2 Looking forward, while the easing of trade tensions since the latter part of last year will hopefully bring a more stable global economic environment in 2020, the growth momentum of many advanced economies will likely remain sluggish. The threat of the novel coronavirus infection of late has become a new cause for deep concern. On 30 January 2020, the World Health Organization declared the infection a public health emergency of international concern. The disease itself has hurt economic sentiment in the Mainland, while unprecedented lockdowns in some cities and quarantine measures taken by the Mainland authorities, together with the travel restrictions imposed on Mainland residents by other economies, may severely disrupt production and export activities in the near term. This will in turn weigh on the economic performance of Asian economies not just through reduced external demand but also through supply chains. Downside risks to the global economic outlook in 2020 have thus increased notably.

Global economic outlook

2.3 The Mainland economy expanded by 6.1% in 2019, attaining the growth target of 6 – 6.5% set at the beginning of the year. While growth momentum decelerated through most of the year amid an austere external environment, the economy remained resilient thanks to solid fundamentals and reduced reliance on external trade over the years. Going into 2020, uncertainties stemming from US-Mainland trade relations remain given their unresolved differences in a number of issues. Meanwhile, the spread of the novel coronavirus infection of late, through hurting economic sentiment and disrupting economic activities, is likely to exert downward pressure on the Mainland economy in the near term. Nonetheless, the Mainland authorities still have adequate policy space to roll out further support measures as necessary to navigate the short-term challenges and maintain macroeconomic stability, as pledged at the Central Economic Work Conference last December. Once the infection is contained, the Mainland economy is likely to make a swift recovery and attain a growth pace that is much higher than in the major advanced economies.

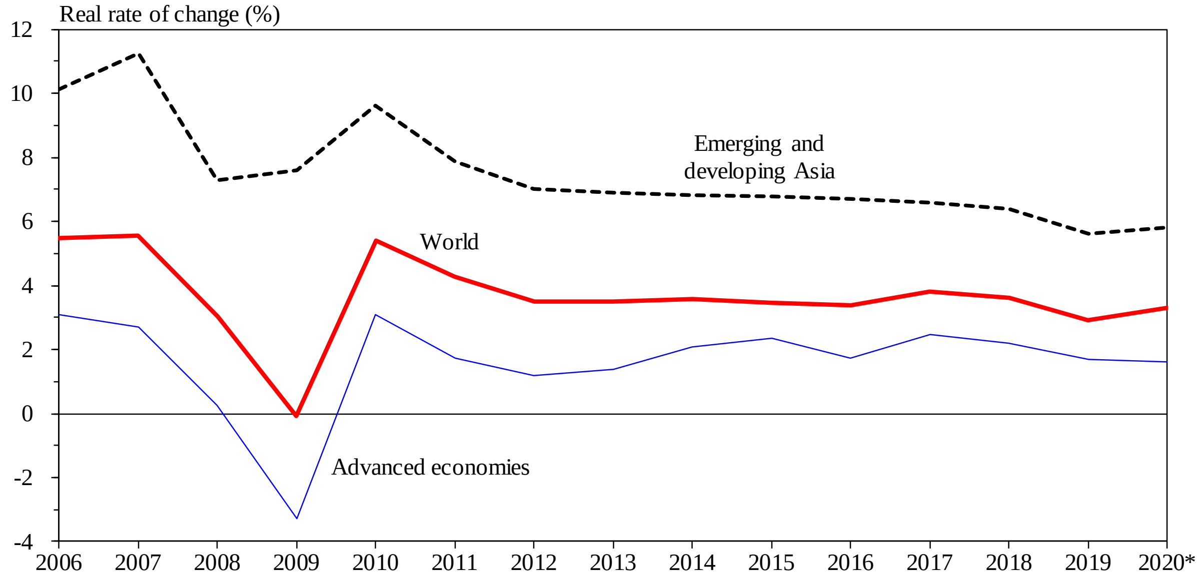
2.4 As for the major advanced economies, economic growth in the US eased in 2019, having grown strongly in 2018, mainly due to weaker exports and private investment. Nevertheless, overall growth remained decent on the back of solid private consumption. The labour market was robust, with the unemployment rate hovering around a 50-year low. The US Federal Reserve (Fed), citing weak global demand and muted inflationary pressure, lowered interest rates three times in the second half of the year, but cautioned that this should not be seen as the start of a longer easing cycle. Looking ahead into 2020, the US economy is expected to moderate to its potential growth level, amid reduced fiscal support and trade policy uncertainty. The upward trajectory of public debt is a lingering concern that may limit the US' policy options in the event of a future downturn.

2.5 The euro area economy saw only modest growth in 2019 due to weakness in exports and manufacturing activity, particularly in the major member states like Germany which narrowly avoided a technical recession in the third quarter. The labour market fared relatively well, with the unemployment rate falling to its lowest level since mid-2008 and wages recording gains in real terms. Going forward, the European Central Bank's accommodative stance should render some support to the economy, but growth would continue to be modest, given the constraints from generally weak sentiment and lingering structural issues. The evolving post-Brexit economic relations between the UK and the EU remain a cause for concern. Other developments in Europe, such as political issues in Spain and the ongoing social unrest in France, also warrant attention.

2.6 Japan's economy registered modest growth in the first three quarters of 2019, but relapsed to a contraction in the fourth quarter as the consumption tax hike effected in October last year dealt a blow to private consumption. Looking ahead, growth is expected to decelerate again in 2020 as the consumption tax hike continues to bite, and various structural issues such as the ageing population and elevated public debt continue to restrain growth. Nevertheless, the government's fiscal stimulus package and the 2020 Olympic Games in Tokyo are expected to render some cushion. For other high-income Asian economies, Singapore's growth rate in 2019 was the slowest in a decade, while that of Korea also moderated amid weakening exports. Looking ahead into 2020, their economic performance will inevitably be affected by the threat of the novel coronavirus infection in the near term. The export outlook this year will also hinge much on how the global economic environment and international trade relations evolve.

2.7 As for the emerging market economies, those in ASEAN such as Indonesia, Malaysia and the Philippines saw resilient though slightly moderated growth in 2019, as strong private consumption provided a partial offset to falling exports caused by US-Mainland trade tensions and weaker global demand. Meanwhile, the Indian economy slowed visibly, partly due to the health of its nonbank financial sector and uncertainty about its pace of economic reforms. Non-Asian emerging market economies generally slowed by a larger extent, especially those facing varying degrees of financial pressures. In response to the difficult economic environment, various central banks in emerging market economies have lowered their policy rates in the past year or so. Looking ahead, the recent easing in US-Mainland trade tensions should provide a more conducive external environment; various supportive fiscal and monetary policies would gradually take effect; and the situations in some financially-stressed economies should begin to stabilise. But counteracting all these favourable factors will be the spillovers from the threat of the novel coronavirus infection, which could weigh heavily on production and trading activities in the near term.

Diagram 2.1 : The recent novel coronavirus infection has fuelled new downside risks to the global economy in 2020



Source : IMF World Economic Outlook Update, January 2020.
Note : (*) Forecasts from the IMF.

2.8 In mid-January, the IMF forecast that the global economy would grow by 3.3% in 2020, faster than the estimated growth of 2.9% in 2019. Growth in the advanced economies was forecast to moderate slightly from 1.7% in 2019 to 1.6% in 2020, while that in emerging market economies was forecast to pick up from 3.7% to 4.4%. Within the emerging market economies, those in Asia combined were projected to grow at a notable rate of 5.8% in 2020, somewhat faster than their growth of 5.6% in 2019. Yet it appears rather difficult for the forecast to be realised, with the spread of the novel coronavirus infection likely to deal a blow to the near-term economic performance of the Mainland and some other Asian economies. There are also other downside risks to the near-term outlook. In particular, the IMF warned that a further escalation of trade tensions could undermine the nascent stabilisation of global manufacturing and trade activity; and a further escalation of geopolitical tensions, notably between the US and Iran, could disrupt global oil supply, hurt sentiment and weaken already tentative business investment. Moreover, either of these events could trigger capital flight toward safer assets, increasing the risks of more vulnerable borrowers.

Table 2.1 : Growth forecasts for major economies in 2020

		2020		
	2019[*] (%)	**IMF[*] (%)**	**UN[@] (%)**	**Private sector forecast[^] (%)**
World (PPP[##] weighted)	2.9	3.3	3.2	-
Advanced economies	1.7	1.6	-	-
US	2.3[#]	2.0	1.7	1.9
Euro area	1.2[#]	1.3	1.4	0.9
UK	1.4[#]	1.4	1.2	1.1
Japan	0.7[#]	0.7	0.9	0.3
Emerging market and developing economies	3.7	4.4	-	-
Emerging and developing Asia	5.6	5.8	-	-
Mainland China	6.1[#]	6.0	6.0	5.6
India[~]	4.8	5.8	6.6	5.9
ASEAN-5[§]	4.7	4.8	-	-
Middle East and Central Asia	0.8	2.8	-	-

Notes : (*) IMF World Economic Outlook Update, January 2020.
(@) United Nations World Economic Situation and Prospects, January 2020.
(^) Average forecasts as at February 2020.
(-) Not available.
(#) Actual figures.
(##) PPP refers to purchasing power parity.
(~) India's GDP growth refers to fiscal year.
(§) Includes Indonesia, Malaysia, the Philippines, Thailand and Vietnam.

Monetary conditions and exchange rate movements

2.9 The global monetary environment has become notably more accommodative since the second half of 2019. The Fed cut its target federal funds rate three times during July – October, to 1.50 – 1.75%, and ended its balance sheet reduction programme earlier than previously indicated. In Europe, the ECB cut its deposit facility rate further in the negative territory to -0.50% in September and started a new round of asset purchases from November 2019 for an unlimited period, while pledging to keep its policy rates at their present or lower levels until the inflation outlook improves. In Asia, the Bank of Japan continued its loose monetary policy, keeping its short-term interest rate target at -0.1% and the 10-year government bond yield at around zero. The People's Bank of China cut its reserve requirement ratio several times and introduced a new, more market-based lending benchmark. However, given that global interest rates are already at a low level, there is limited room for further monetary easing measures if downward risks intensify, particularly for central banks in the advanced economies.

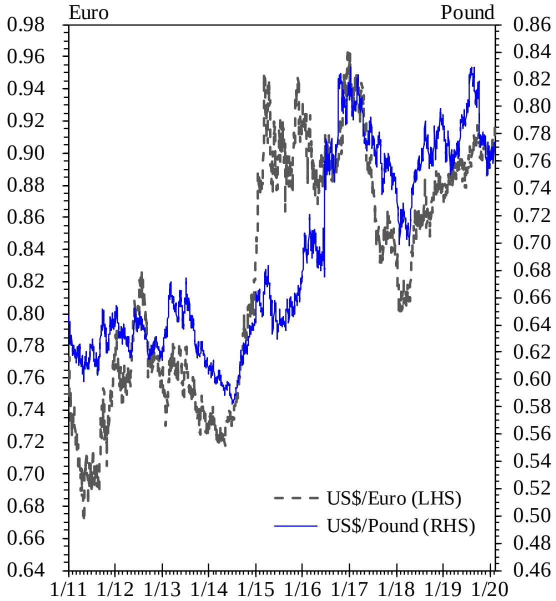
2.10 The US dollar strengthened against many major currencies during 2019, underpinned by the relative strength of the US economy. The Hong Kong dollar, which follows closely the movements of the US dollar under the Linked Exchange Rate System, also appreciated against the currencies of many of Hong Kong's trading partners. The nominal trade-weighted effective exchange rate index of the Hong Kong dollar in December 2019 rose further by 1% over a year earlier.

2.11 Amid the strengthening of the US dollar, the renminbi (RMB) depreciated by 2% against the US dollar and Hong Kong dollar year-on-year in December 2019. Nonetheless, the RMB remained relatively stable against a basket of major currencies. According to the Bank for International Settlements, the effective exchange rate index of the RMB depreciated by only 1% over the period.

2.12 The direction of exchange rate movements in 2020 will, as always, be subject to various uncertainties, including the comparative strengths of economic growth across major economies, the progress of UK-EU negotiations for a comprehensive free trade agreement, monetary policy decisions of major central banks and geopolitical developments. As of early 2020, the US dollar was still slightly stronger than a year earlier. As for the RMB, as the market-oriented reform of the exchange rate formation mechanism deepens further, and given the solid fundamentals of the Mainland economy, the RMB exchange rate should stay relatively stable despite some fluctuations of late amid worries about the novel coronavirus infection. Hong Kong's export performance going forward, as in previous years, will likely hinge more on global demand conditions than on exchange rate movements.

Diagram 2.2 : The direction of exchange rate movements in 2020 will, as always, be subject to various uncertainties

(a) Against euro and pound sterling



(b) Against yen and Singapore dollar

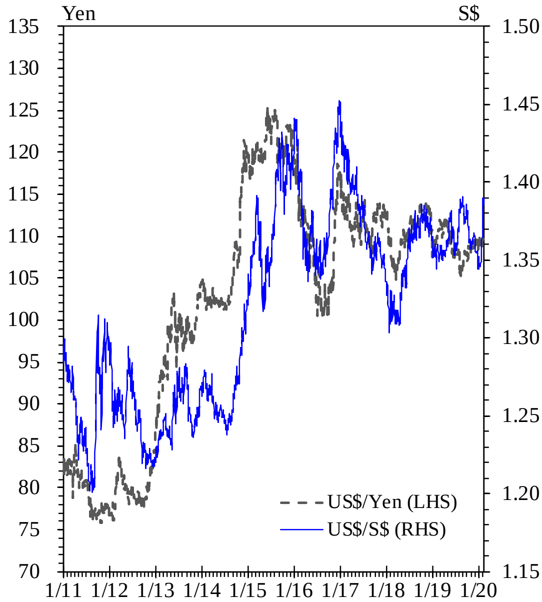
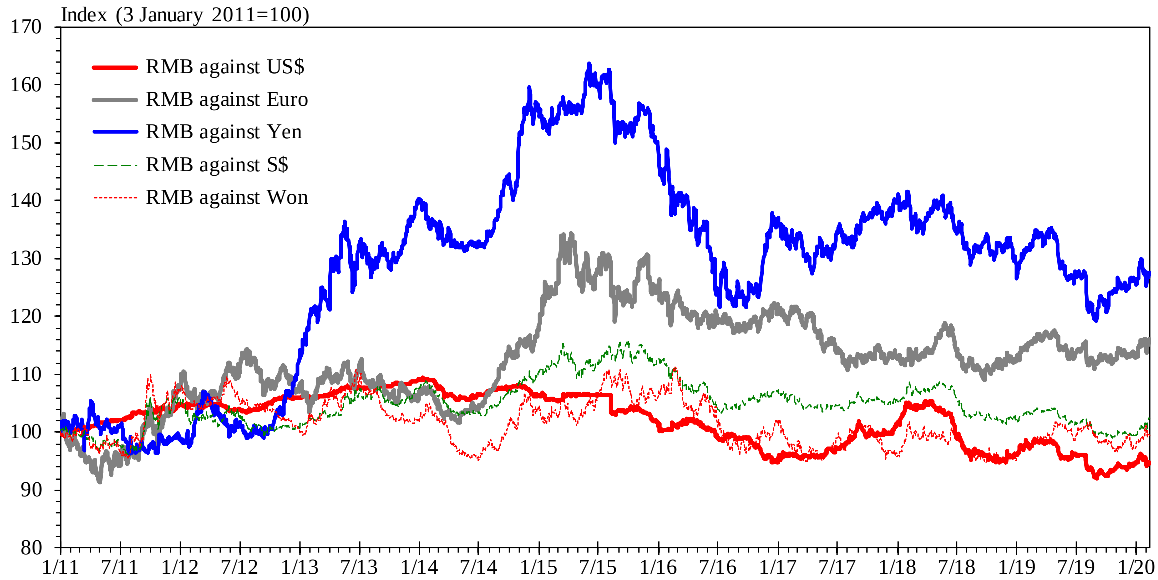


Diagram 2.3 : The RMB exchange rate should be able to maintain stability at a reasonable level



Note : An increase in the index represents an appreciation of the RMB against the currency concerned.

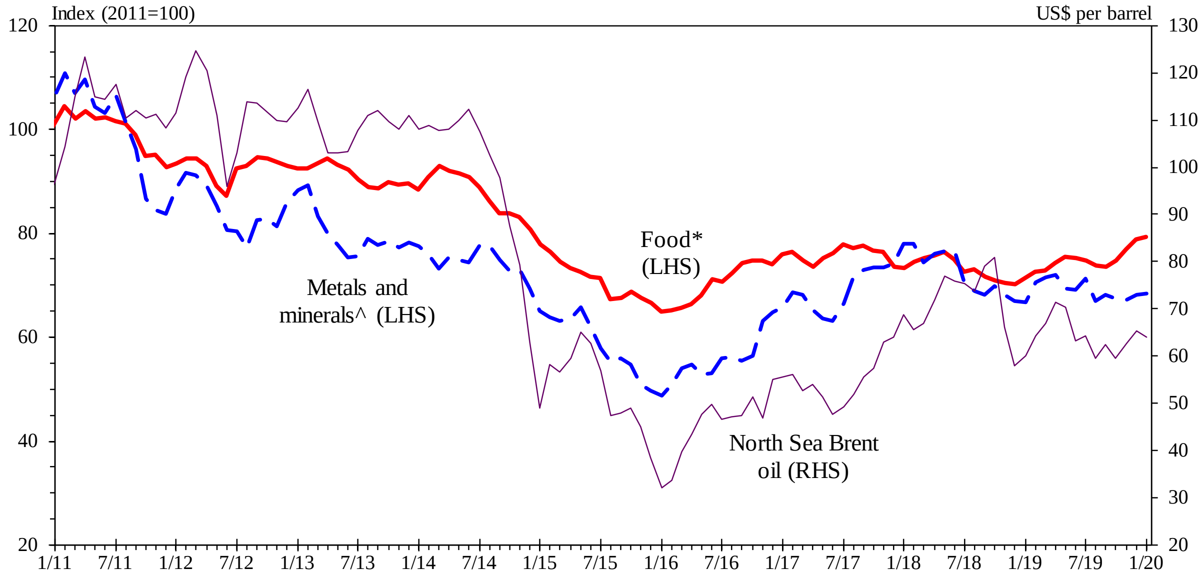
World inflation and global commodity prices

2.13 Global inflation eased in 2019 amid the weakening pace of global expansion. Despite declining unemployment and modestly higher wage growth in a number of advanced economies, there was no apparent evidence of feed-through to core consumer prices, suggesting that businesses might find it difficult to pass cost increases on to consumers amid the soft demand conditions. Moreover, generally soft international commodity and energy prices also helped contain inflationary pressures. Looking ahead, global inflation is expected to stay largely modest in 2020. In January the IMF forecast that inflation in the advanced economies would climb from 1.4% in 2019 to 1.7% in 2020 while inflation in the emerging market economies would ease from 5.1% to 4.6%.

2.14 International crude oil prices rebounded sharply at the beginning of 2019, due to OPEC-led production cuts and declining US stockpiles. Yet, after reaching a peak in April, oil prices stabilized and drifted lower for the remainder of the year as US production hit record levels and global demand weakened. The spikes in oil prices after attacks on Saudi oil facilities in September 2019 and the US strike against Iran earlier this year proved short-lived. Metal prices were mixed as the effects of sluggish global demand were counterbalanced by supply disruptions in some areas. Global food prices remained generally soft in early 2019 on a year-on-year comparison, but staged a notable rebound thereafter amid shortages of pork and rising demand for vegetable oils, according to the Food and Agriculture Organization (FAO) of the United Nations.

2.15 Looking ahead, there are still uncertainties about the outlook for international commodity prices in 2020. For international oil prices, while there was some easing of late amid concerns about the novel coronavirus infection, the outlook will continue to hinge on how the evolving demand conditions interact with the various supply-side factors, such as the production decisions of the oil-producing economies and the geopolitical tensions in the oil-producing regions. Moreover, international food and commodity prices are sensitive to unpredictable short-term supply shocks stemming from factors such as adverse weather conditions.

Diagram 2.4 : The outlook for international commodity prices in 2020 is still fraught with uncertainties

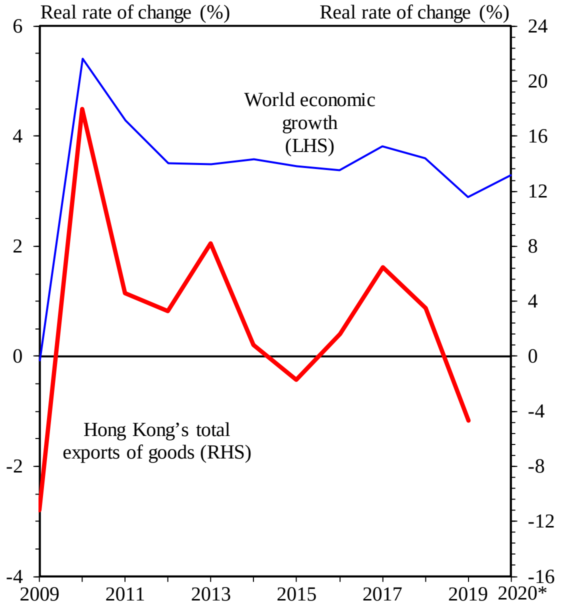


Notes: (*) Food Price Index from FAO of the United Nations, rebased to show average in 2011 = 100.
(^) Metals and Minerals Price Index from the World Bank, rebased to show average in 2011 = 100.

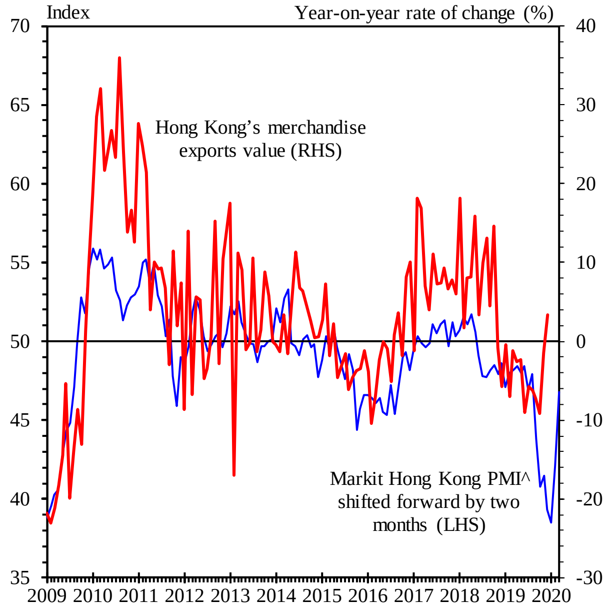
Outlook for the Hong Kong economy in 2020

2.16 With some easing of US-Mainland trade tensions and the modest boost from the accommodative moves by major central banks, the global economy has shown signs of stabilisation towards the end of 2019. While this should provide support to the Asian economies in 2020, the threat of the novel coronavirus infection of late has added significant downward pressures in the near term. With the infection and related control measures hitting regional production activities and trade flows, Hong Kong's exports of goods will inevitably be affected. Meanwhile, uncertainties surrounding the US-Mainland economic and technology relations remain when the two sides proceed to negotiate for a phase two deal. The Mainland and the US will likely need more time to resolve their differences in a number of key issues, so the bilateral economic and trade relations may see twists and turns in the period ahead, fuelling uncertainties in the external environment. If trade tensions intensify again, Hong Kong's external trade would face further downward pressures.

Diagram 2.5 : The easing of trade tensions should render some support to Hong Kong's exports in 2020, but the novel coronavirus infection could weigh

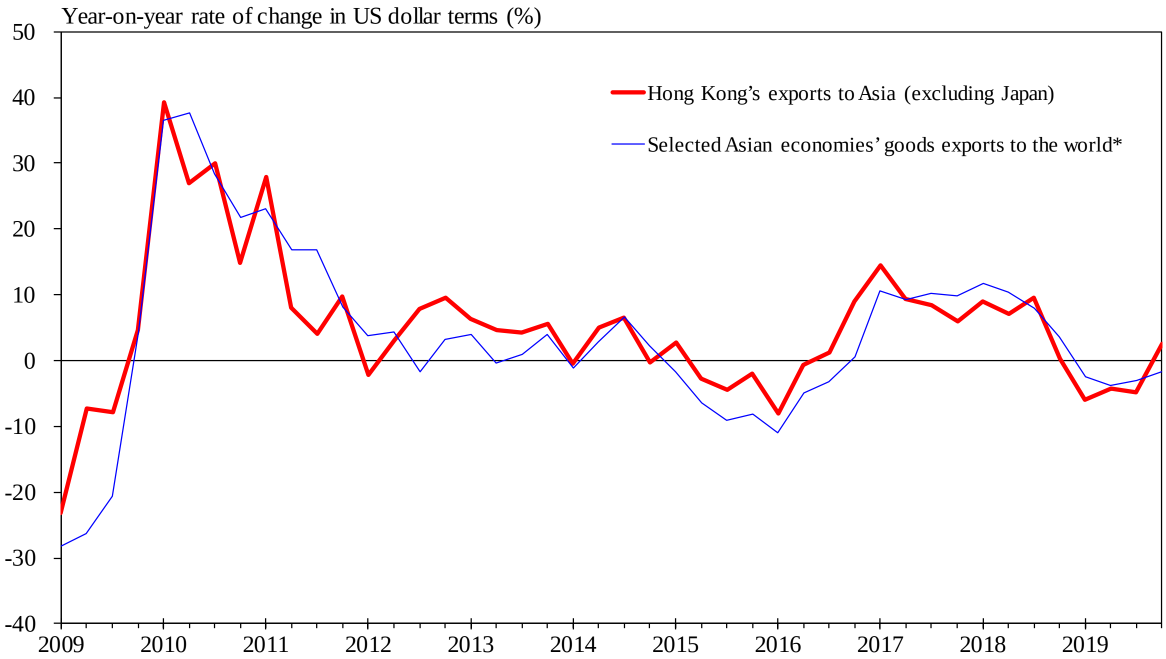


Note : (*) Forecast from the IMF World Economic Outlook Update, January 2020.



Note: (^) Based on data from IHS Markit.

Diagram 2.6 : Regional trade flows slackened in 2019 amid trade tensions



Note : (*) "Selected Asian economies" include the Mainland of China, Hong Kong, Singapore, Korea, Taiwan, Japan, Indonesia, Malaysia, Thailand and the Philippines.

2.17 Exports of services deteriorated sharply in the second half of 2019, reflecting primarily the severe disruptions to tourism-related activities caused by the local social incidents with violence. The global economic slowdown and shrinking trade flows also contributed. The outlook for 2020 has become even more gloomy. In particular, exports of travel services would be hard hit by the threat of the infection, amid measures restricting cross-border travels. The performance will also depend on the development of the local social incidents. Visitors' confidence in travelling to Hong Kong would likely take time to recover, even if the infection is kept under control and the social atmosphere calms down.

2.18 Domestic demand softened visibly in 2019, affected by weaker economic conditions and various uncertainties. The deterioration was particularly sharp in the second half of the year, as the local social incidents involving violence wreaked havoc on consumption-related economic activities and business sentiment. Looking into 2020, domestic demand will be heavily weighed on by the situation of the new coronavirus infection. It also depends on how the local social incidents unfold. The former has already severely hurt overall economic sentiment and disrupted a wide range of economic activities. Keeping the infection under control and ending the violence in the local social incidents are thus essential to the recovery of domestic consumption and investment activities in the second half of the year. The Government's various policy initiatives as unveiled in the 2020-21 Budget, together with the several rounds of helping measures to support enterprises and employment since August 2019, should render some support to the local economy. Meanwhile, the Government's continued efforts in raising public and private housing supply should also help cushion investment demand. However, if the impact of the novel coronavirus infection turns out to be more severe and prolonged, or if the violence in the local social incidents intensifies again, economic confidence would be severely debilitated, dragging the economy down to the extent even worse than what happened in the second half of last year, with significant repercussions on unemployment and livelihood of the grassroots workers.

Diagram 2.7 : The performance of private consumption expenditure is important to the stability of the labour market

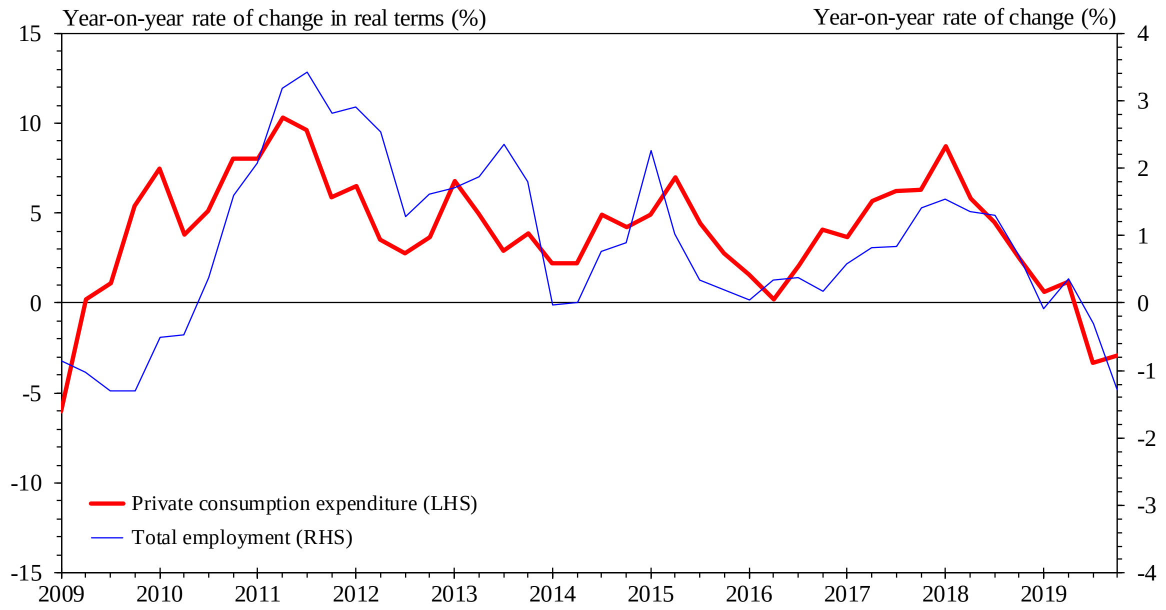
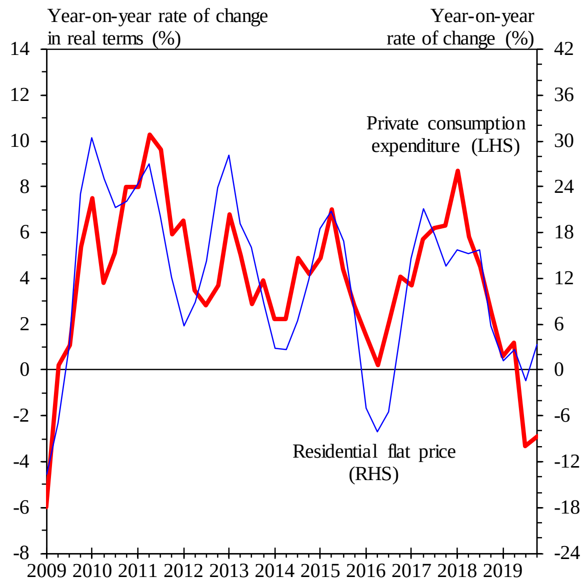


Diagram 2.8 : Private consumption expenditure weakened sharply in the second half of 2019, due largely to the local social incidents involving violence

(a) Housing wealth



(b) Equity wealth

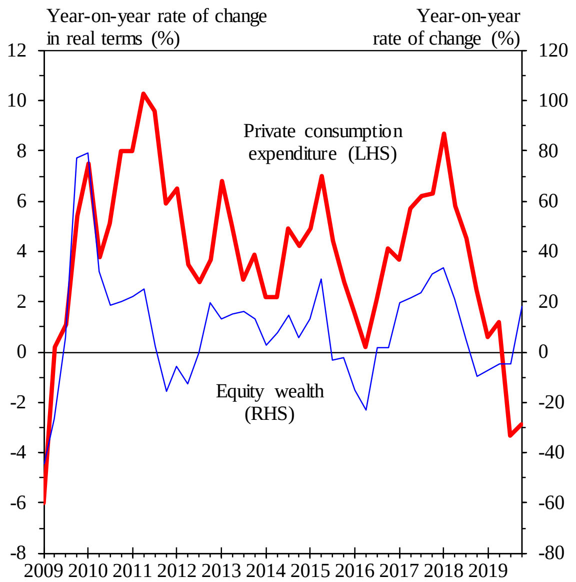
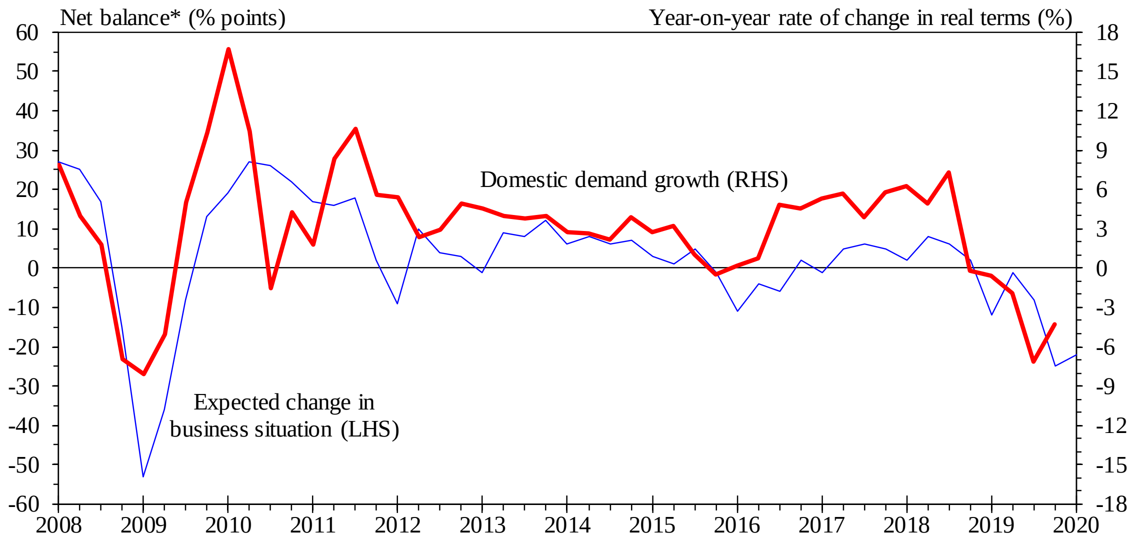
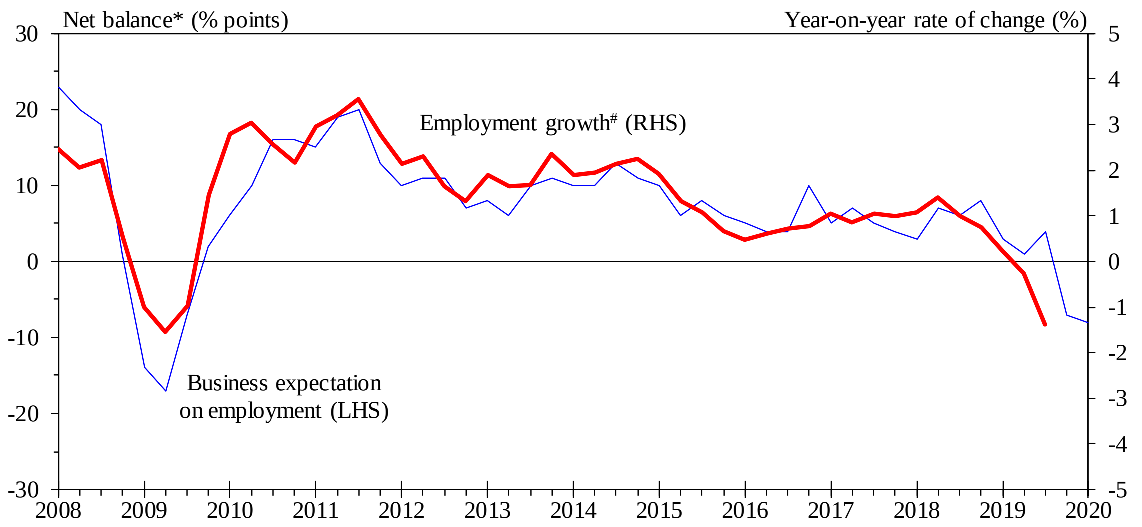


Diagram 2.9 : Business sentiment remained very pessimistic of late



Note : (*) Net balance indicates the direction of expected change in business situation versus the preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "better" over that choosing "worse". A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.

Diagram 2.10 : Overall hiring sentiment turned negative in recent quarters

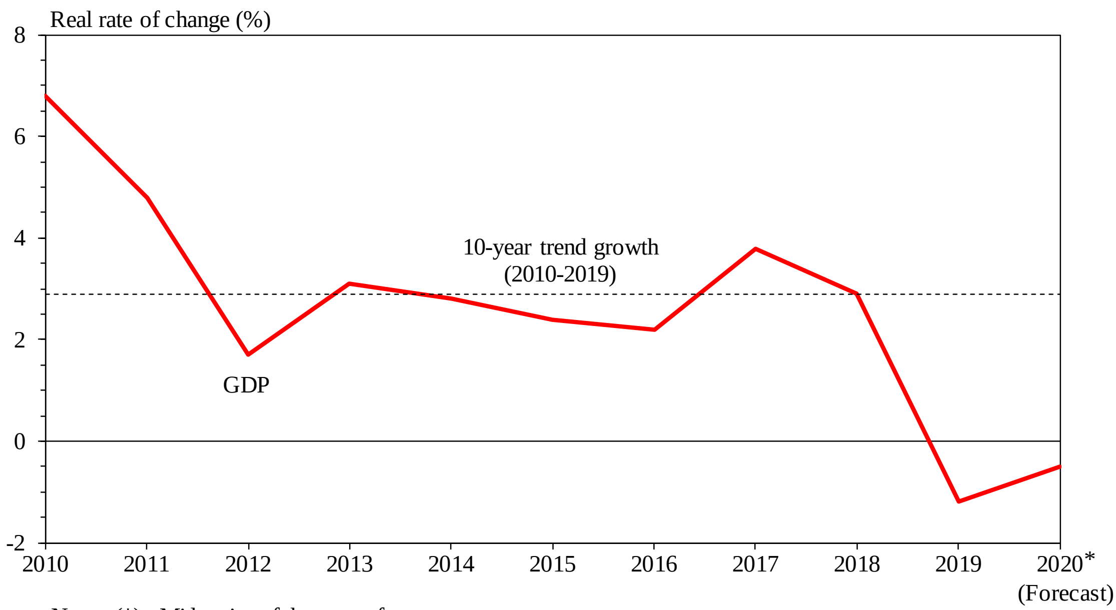


Notes : (*) Net balance indicates the direction of expected change in number of persons engaged versus the preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "up" over that choosing "down". A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.

(#) Employment in the private sector.

2.19 In sum, the near-term outlook for the Hong Kong economy is extremely challenging, and the probability of another year of economic contraction has notably increased. At this juncture, uncertainty surrounding the severity and duration of the novel coronavirus infection remains high. The outturn for the economy in 2020 will also hinge on the developments in US-Mainland trade relations and the local social incidents. Overall, taking into account the boosting effect from the measures in the 2020-21 Budget and the additional helping measures introduced since August 2019, the Hong Kong economy is forecast to grow by -1.5% to 0.5% in 2020. This compares with the 1.2% contraction in 2019 and the trend growth of 2.9% in the past decade. The range forecast is predicated on the assumptions that the novel coronavirus infection in the region would be kept under control within several months, that local social incidents would not cause extreme and protracted disruptions to economic activities, and that there would not be a significant re-escalation of US-Mainland trade tensions. The growth outturn could be lower than forecast, particularly if the severe impact of the infection turns out to last longer than expected, or if the social unrest persists and turns even more violent. On the other hand, it could be higher than forecast if the global recovery would be stronger than expected and some rollback of existing trade barriers would take place. The Government will closely monitor the situation, and will not hesitate to roll out additional measures as appropriate to support the economy. For comparison, the latest forecasts by private sector analysts for Hong Kong's economic growth in 2020 mostly fall within the range of -2.0% to 1.0%, averaging around -0.9%, and that put out by the IMF in late December 2019 is 0.2%.

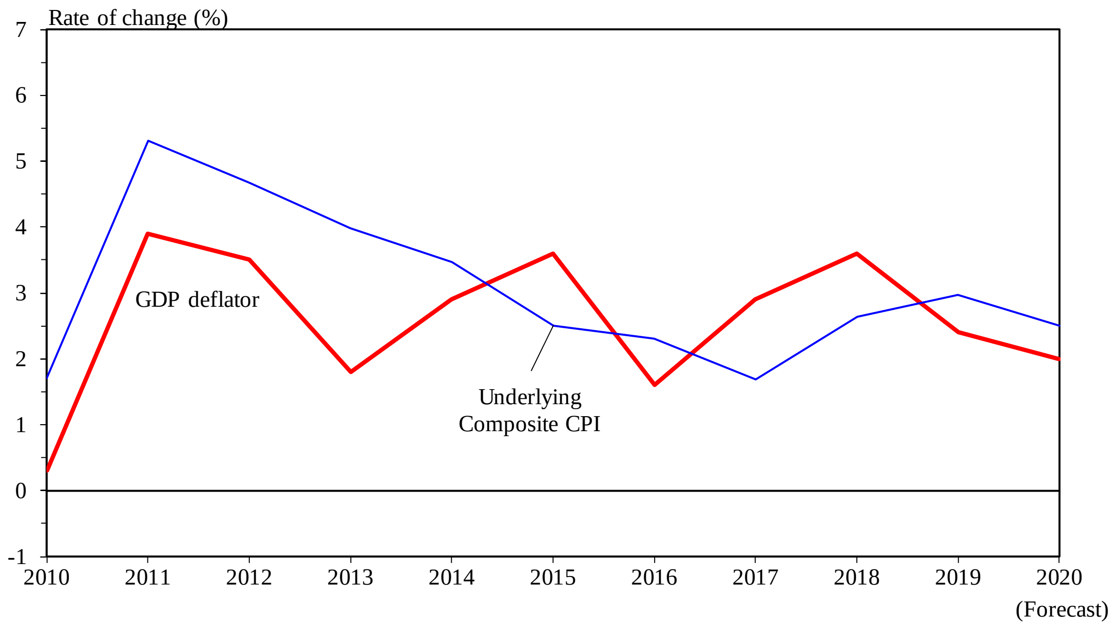
Diagram 2.11 : The Hong Kong economy is forecast to grow by -1.5% to 0.5% in 2020



Note : (*) Mid-point of the range forecast.

2.20 Underlying consumer price inflation in Hong Kong went up in 2019, primarily due to a surge in pork prices since May 2019. Price pressures on other major consumer price index components were largely moderate. Looking ahead, consumer price inflation should go somewhat lower in 2020. External price pressures are likely to remain contained as inflation rates in our major import sources are expected to be kept in check (see ***Box 2.1***). Locally, the moderation in fresh-letting residential rentals since late 2018 should help contain overall inflation at least in the early part of 2020. Domestic cost pressures are likely to be kept at bay amid sub-par local economic conditions and softening wage growth. Moreover, the disruptions to prices of certain daily necessities, if any, by the situation of the infection should be temporary, and the upward pressure on consumer price inflation from the surge in pork prices is likely to wane after May 2020 against a high base of comparison. Underlying consumer price inflation is forecast at 2.5% in 2020, down from 3.0% in 2019. For reference, the latest forecasts for consumer price inflation in 2020 by private sector analysts average 2.1%, while that by the IMF is 1.8%. The GDP deflator is forecast to rise by 2% in 2020, slightly slower than consumer price inflation.

Diagram 2.12 : Underlying consumer price inflation is forecast to go somewhat lower to 2.5% in 2020



Forecast rate of change in 2020 (%)

Gross Domestic Product (GDP)

Real GDP	**-1.5 to 0.5**
Nominal GDP	0.5 to 2.5
Per capita GDP in real terms	-2.2 to -0.2
Per capita GDP at current market prices	HK$381,100 – 388,700 (US$48,900 – 49,800)

Underlying Composite Consumer Price Index	**2.5**
GDP Deflator	**2**

Forecast on Hong Kong's real GDP growth in 2020 recently made by other selected parties

	(%)
Asian Development Bank (December 2019)	0.3
IMF (December 2019)	0.2
Average forecast by private sector analysts#	-0.9

Note : (#) Real GDP growth forecasts by private sector analysts mostly fall between -2.0% and 1.0%.

Box 2.1

Inflation outlook of Hong Kong's major import sources for 2020

As a small and open economy, Hong Kong is highly reliant on imports, especially for foodstuffs and consumer goods. As such, inflation in Hong Kong's major import sources[(1)] could have significant impacts on the price pressures faced by Hong Kong. This box article discusses their near-term inflation outlook and the possible implications for Hong Kong's inflation in 2020.

Inflation outlook of the US

In the US, inflation eased somewhat in 2019, though remained close to the Federal Reserve's (Fed) 2% target. Core personal consumption expenditure (PCE) inflation, the Fed's preferred measure of inflation after excluding the food and energy components, went down to 1.6% in 2019 from 2.0% in 2018. Looking ahead into 2020, various projections conducted by the Fed generally suggested that inflation would edge up over the course of the year amid tight labour market conditions[(2)], but should remain moderate and in the vicinity of its inflation target. For instance, the median projection by the Federal Open Market Committee's (FOMC) members in December 2019 suggested that core PCE inflation would increase slightly to 1.9% in the fourth quarter of 2020. Meanwhile, according to the Fourth Quarter 2019 Survey of Professional Forecasters conducted by the Federal Reserve Bank of Philadelphia, core PCE inflation was projected to reach 2.0% in the fourth quarter of 2020 ***(Chart 1)***.

Inflation outlook of the euro area

In the euro area, core consumer price inflation stayed modest at 1.0% in 2019. According to the Eurosystem staff macroeconomic projections in December 2019, it is forecast to increase to 1.3% in 2020. Likewise, based on the European Central Bank's (ECB) Survey of Professional Forecasters for the first quarter of 2020, respondents, on average, expected that core CPI inflation would edge up to 1.2% in 2020 ***(Chart 2)***. These forecasts indicated that inflation in the euro area should remain modest in 2020 despite some pick-up, alongside the still-sluggish growth momentum expected for the region[(3)].

Chart 1: Inflation forecast in the US

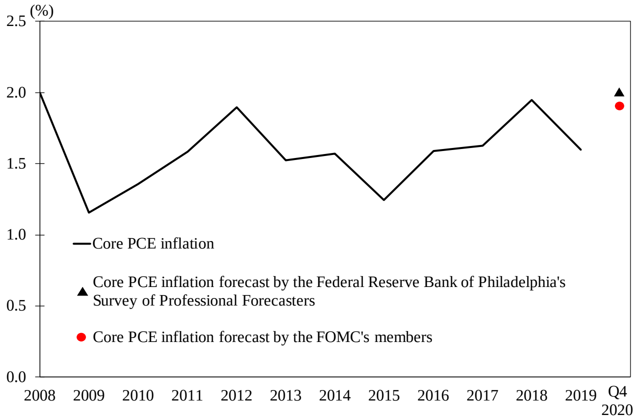
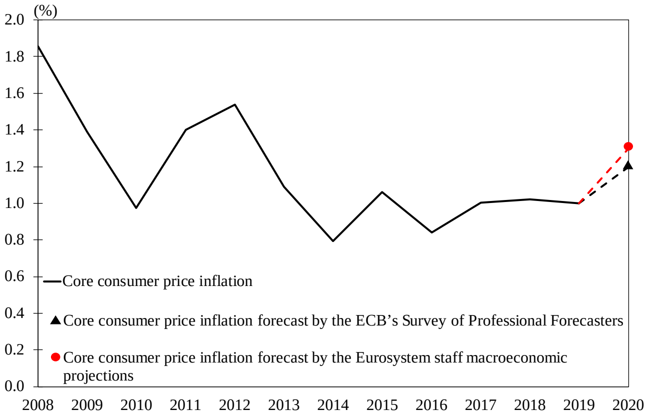


Chart 2: Inflation forecast in the euro area



Source: The Federal Reserves, the Federal Reserve Bank of Philadelphia, the European Central Bank.

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(1) For end-use categories of foodstuffs and consumer goods, the Mainland, the euro area, the US, ASEAN and Japan were Hong Kong's main import sources in 2019.

(2) The unemployment rate in the US, at 3.6% in January 2020, continued to hover around the 50-year low, and is expected by the Fed to stay low over the course of 2020.

(3) In January 2020, the IMF forecast that the economic growth in the euro area would stay modest at 1.3% in 2020.

Box 2.1 (Cont'd)

Inflation outlook of the Mainland

In the Mainland, consumer price inflation went up from 2.2% in the first half of 2019 to 2.9% and 4.3% in the third and fourth quarter(4) respectively, mainly due to the surge in pork prices(5) amid the impact of the African swine fever on the supply of live pigs. Excluding food, the inflation rate in the fourth quarter was only 1.1%. Overall inflation averaged 2.9% for 2019 as a whole, up from 2.1% in 2018. As for inflation outlook, the International Monetary Fund (IMF) in October 2019 projected that consumer price inflation in the Mainland would moderate to 2.4% for 2020 as a whole. On the other hand, the Chinese Academy of Social Sciences in December 2019 forecast that consumer price inflation would be about 3.4% for 2020 as a whole, which was somewhat higher than the annual inflation in 2019 yet lower than that in the fourth quarter of 2019 ***(Chart 3)***. On balance, overall price pressures in the Mainland are expected to moderate through 2020, though the pace of easing would largely hinge on the supply situation of live pigs(6) and the extent of the impact of the recent novel coronavirus infection on production activity.

Inflation outlook of Japan

In Japan, consumer price inflation (excluding fresh food) remained modest at 0.7% in 2019. Looking ahead, the Bank of Japan (BoJ) in January 2020 forecast that consumer price inflation (excluding fresh food) would pick up to 1.0% for the fiscal year 2020 ***(Chart 4)***. In fact, the expected pick-up in inflation was largely due to the increase in consumption tax rate from 8% to 10% since October 2019(7). Overall inflationary pressures should remain modest, mirroring the expected meagre economic growth in the year(8). Meanwhile, according to the Tankan survey conducted by the BoJ in December 2019, which excludes the effects of the consumption tax rate hike, enterprises generally forecast the price pressures to remain mild in the near term, projecting a modest annual increase of 0.8% in general prices in 2020.

Chart 3: Inflation forecast in the Mainland

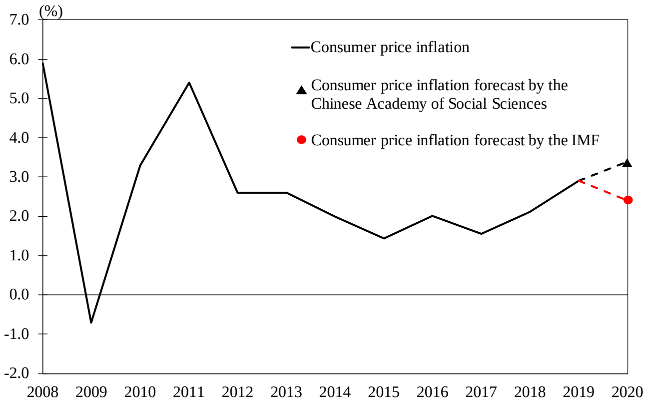
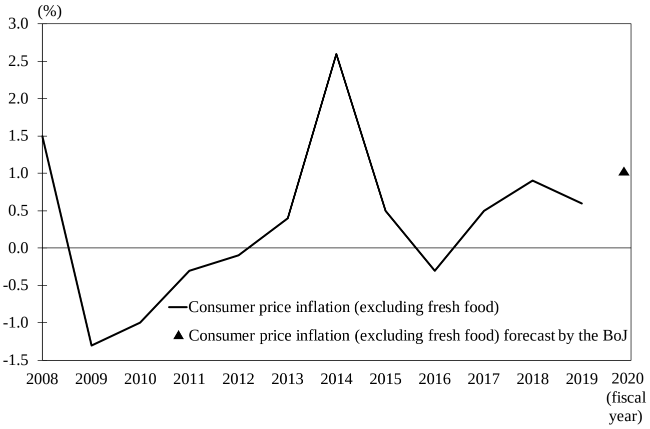


Chart 4: Inflation forecast in Japan



Source: The Chinese Academy of Social Sciences, the IMF, the Bank of Japan.

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(4) The consumer price inflation in the third and fourth quarter is the simple average of that in each month in the quarter.

(5) The pork component rose by about 18% year-on-year in the second quarter of 2019, and surged by around 48% and 103% in the third and fourth quarter respectively.

(6) According to the Ministry of Agriculture and Rural Affairs, the stock of sows that are pregnable resumed month-to-month increases for three months in a row from October to December 2019, after falling for nineteen consecutive months.

(7) The BoJ estimated that the effects of the consumption tax rate hike on the year-on-year rate of change in CPI (excluding fresh food) was 0.5 percentage point for the fiscal year 2020, predicating on the assumption that the rise in the consumption tax would be fully passed on to prices of taxable items.

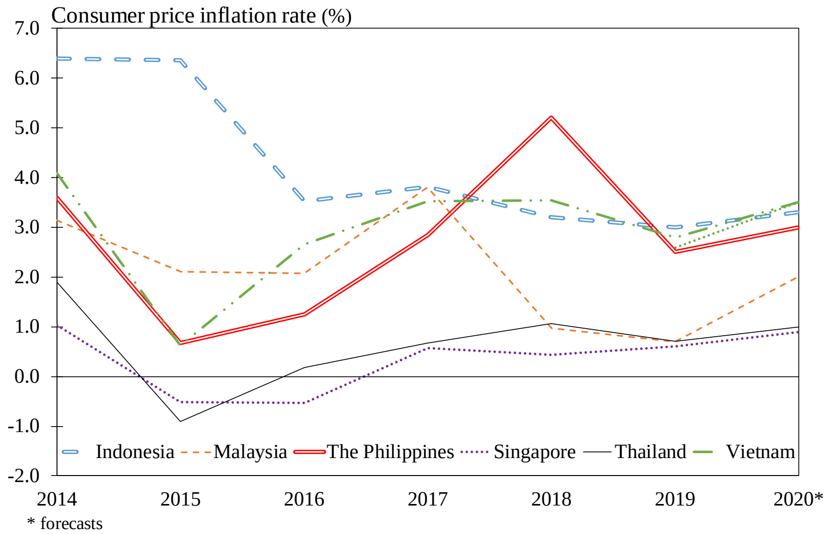
(8) In January 2020, the BoJ forecast that the economic growth in Japan would be modest at 0.9% for the fiscal year 2020.

Box 2.1 (Cont'd)

Inflation outlook of ASEAN economies

Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam are Hong Kong's major import sources within ASEAN economies. In 2019, consumer price inflation in those economies generally eased along with softening global economic growth. Looking ahead into 2020, the Asian Development Bank (ADB) in December 2019 projected that consumer price inflation would pick up by varying degrees in these economies, ranging from 0.3 percentage point in Indonesia, Singapore and Thailand to 1.3 percentage points in Malaysia(9), alongside their slightly faster economic growth in general(10). In specific, the rates of consumer price inflation in Indonesia, the Philippines and Vietnam were expected to climb somewhat to 3.3%, 3.0% and 3.5% respectively in 2020, while those in Malaysia, Singapore and Thailand were forecast to remain modest or moderate at 2.0%, 0.9% and 1.0% respectively in 2020 ***(Chart 5)***. In sum, overall price pressures in these ASEAN economies, while expected to go up alongside the slightly brighter growth outlook, should remain generally contained in 2020(11).

Chart 5: Inflation forecast in selected ASEAN economies which are Hong Kong's major import sources



Source: Asian Development Bank.

Conclusion

While consumer price inflation in many of Hong Kong's major import sources are expected to pick up somewhat in 2020, the inflation rates in advanced economies (i.e. the US, the euro area and Japan) should remain modest, while those in the Mainland and some ASEAN economies should stay largely contained. Hence, barring a prolonged disruptions to regional supply chains caused by the novel coronavirus infection or a renewed upsurge of international commodity and food prices that would drive up the inflation pressures in the major economies, external price pressures in Hong Kong should still be kept in check in 2020. The Government will continue to closely monitor inflation of our major import sources and their possible impacts on inflation in Hong Kong.

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(9) The expected pick-up of consumer price inflation in Malaysia in 2020 was partly due to the low inflation rate in the first five months in 2019 amid the replacement of sales tax scheme that covers fewer goods since June 2018.

(10) The ADB forecast the economic growth of these ASEAN economies would generally pick up somewhat in 2020. On the other hand, The Viet economy is expected to see further solid growth of 6.8% in 2020, broadly on par with the 7.0% growth in 2019.

(11) The consumer price inflation forecasts for these ASEAN economies in 2020 by the IMF were largely similar to those by the ADB.

Medium-term outlook for the Hong Kong economy

2.21 Notwithstanding the prevailing challenges and uncertainties, the medium-term outlook for the Hong Kong economy is still positive. Asia, given the huge growth potential of the emerging market economies therein including notably the Mainland, will continue to be an important global growth driver in the years to come, providing enormous business opportunities for Hong Kong and the world at large. With strong competitive edges and superb geographical location in the heart of Asia, Hong Kong is well-positioned to capitalise on the development.

2.22 Hong Kong's deeper economic and financial ties with the Mainland are positive drivers for our medium-term development. The Mainland's shift to high-quality and sustainable development with deepening reforms and further opening-up should put it on a more balanced and sustainable growth path, unleashing huge opportunities for Hong Kong to tap and at the same time contribute to the national development. In particular, riding on the two national policies, namely the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Bay Area development, Hong Kong will further enhance its role as the business bridge between the Mainland and the rest of the world, and consolidate our status as a leading fund-raising centre, the world's largest offshore Renminbi business hub as well as a premier asset and wealth management hub.

2.23 Hong Kong is also well-prepared to seize the business opportunities emerging from other developing Asian economies, including the ASEAN markets. Over the past two years or so, Hong Kong has been actively expanding its market coverage to countries along the Belt and Road, and strengthened its trade and investment relations with the ASEAN economic partners through signing Free Trade Agreement and Investment Agreement. The closer economic ties with developing Asian economies could open up new business opportunities for Hong Kong enterprises.

2.24 Meanwhile, the advanced economies should continue to expand at a moderate pace beyond 2020, though their growth outlook will depend on their efforts to reduce policy uncertainties and tackle structural issues. The US economy is expected to gravitate toward its long-run potential of moderate growth, though the evolving trade relations with its major partners, the future course of fiscal and monetary policies, and the sustainability of public debt would cast uncertainties surrounding its outlook. Growth prospects of the euro area would still be constrained by structural issues including the high levels of government debt in some member economies. The EU's future economic relations with the UK in the post-Brexit era constitute a new source of uncertainty, and deep-seated socio-political issues in Spain and France also warrant concerns. For Japan, its medium-term growth potential will remain capped by various structural issues such as population ageing and elevated public debts (see ***Box 2.2***).

2.25 One key aspect of uncertainty that warrants close attention is how US-Mainland economic relations will evolve down the road. While their trade tensions eased somewhat after the conclusion of the Phase One trade agreement in mid-January 2020, given the thorny issues involved in their upcoming second-stage trade negotiations, their bilateral economic relations could remain unstable beyond the short term, with potentially notable repercussions on the global economy. Also, geopolitical tensions in the Middle East would remain a concern.

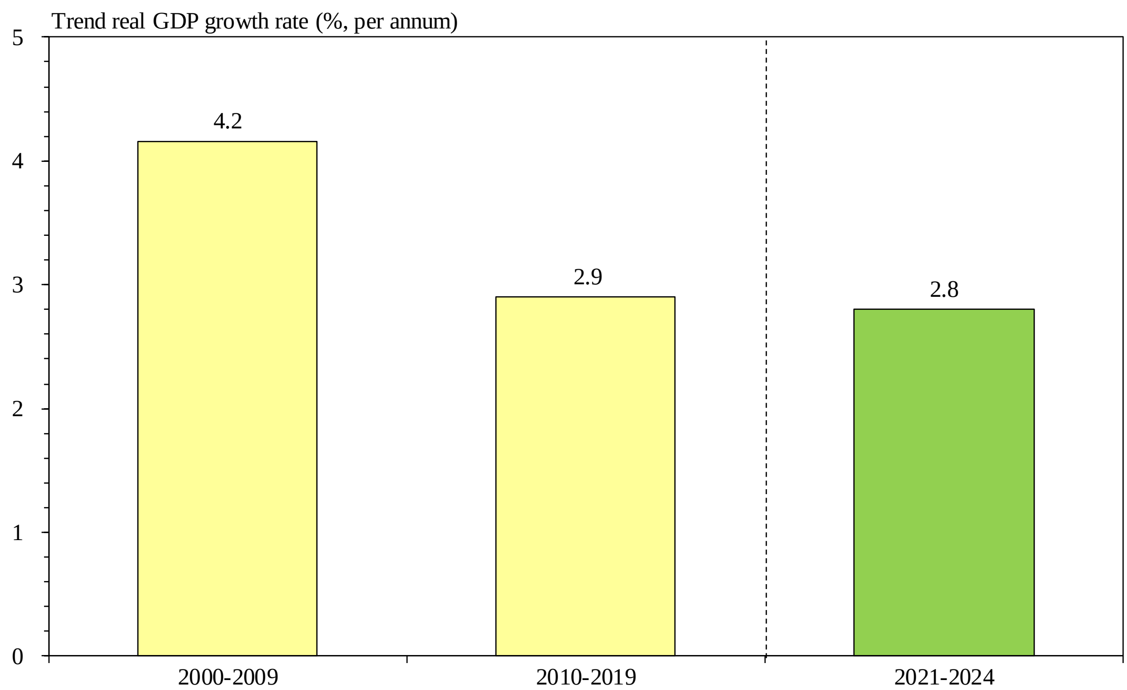
2.26 Locally, the social incidents involving violence, though causing severe disruptions to various economic activities in the second half of 2019, have not affected the effective implementation of "one country, two systems" in Hong Kong, and our core competitiveness has remained firmly in place. Hong Kong's status as an international financial centre and one of the best places to do business in the world continues to be highly recognised, thanks to the Government's staunch efforts to uphold the institutional strengths such as free movement of capital, goods, information and talents; a simple tax regime with low tax rates; sound regulatory system; and the rule of law and an independent judiciary.

2.27 Over the medium term, the constraints from an ageing population will become increasingly challenging. Yet, the Government will continue to play its role of "facilitator" and "promoter" in a proactive manner while maintaining our strong institutions and core competitiveness. To meet the challenges, the Government will spare no effort to increase land supply, invest in nurturing talent, spearhead innovation and technology, and improve the business environment with a view to fostering productivity increase, inclusive growth and sustainable development. Apart from giving continuous support to our four traditional pillar industries, the Government will strive to promote the development of emerging industries with clear growth potential such as innovation and technology, cultural and creative industries and environmental industries, so as to broaden our economic base. In parallel, the Government will capitalise on the opportunities brought about by the Belt & Road Initiative and the development of the Guangdong-Hong Kong-Macao Greater Bay Area, creating quality jobs for the younger generation and assisting Hong Kong's enterprises and professional services to explore new markets.

2.28 Having considered the developments on the external and domestic fronts, the Hong Kong economy is expected to attain a trend growth of 2.8% per annum from 2021 to 2024, broadly in line with the trend growth in the past decade. The underlying assumptions are that the global economy will return to its normal growth path during the medium term, that the prevailing local social incidents will not have any profound and long-lasting impacts on our economy, and that the Government's various economic policies will be successfully implemented. Nevertheless, if the prevailing external and domestic risk factors linger on or even escalate beyond 2020, the growth rate of the Hong Kong economy over the medium term may turn out to be weaker than expected.

2.29 The inflation outlook for Hong Kong in the medium term will hinge on both external and domestic developments. External prices pressures should remain in check, as inflation expectations of major import sources are largely anchored at modest to moderate levels. Local cost pressures should be contained in anticipation of the productivity gain through promotion of innovation and technology, continued vast investment in education and targeted measures to attract high quality talents from around the world. Moreover, the sustained efforts in raising land and housing supply should help alleviate rental cost pressures in the medium term. However, international food and commodity prices, as well as exchange rate movements, are usually volatile and would bring uncertainties to our inflation outlook. Taking these factors together, the trend rate of underlying consumer price inflation in Hong Kong from 2021 to 2024 is forecast to remain moderate, at 2.5% per annum.

Diagram 2.13 : Medium-term trend growth forecast at 2.8% per annum



Box 2.2

Medium-term growth outlook of major economies

With the rise of trade protectionism and unilateralism among the major economies, the global economy has been facing a new set of challenges in recent years. Looking back to 2017, the global recovery from the Great Recession of 2009 had finally appeared to be on firmer ground, with the global economy showing its fastest growth since 2011 and the US Federal Reserve (Fed) making steady progress on bringing interest rates closer to pre-crisis levels. But in 2018, the tide turned once more as the US began to introduce additional tariffs on steel products of its major trading partners for national security reasons, and later also targeted at a wide range of Mainland products. Brexit also started to run into difficulties. Last year, the major economies experienced a synchronized growth slowdown, with global economic growth softening to a decade low. Partly in response to trade uncertainty, the Fed lowered interest rates thrice in the second half of 2019, and central banks in other advanced and developing economies also eased their policy stance. With trade-related conflicts being more prevalent, and longer-term headwinds such as population aging and rising debt still on the horizon, the growth outlook for major economies over the next few years is fraught with considerable uncertainty.

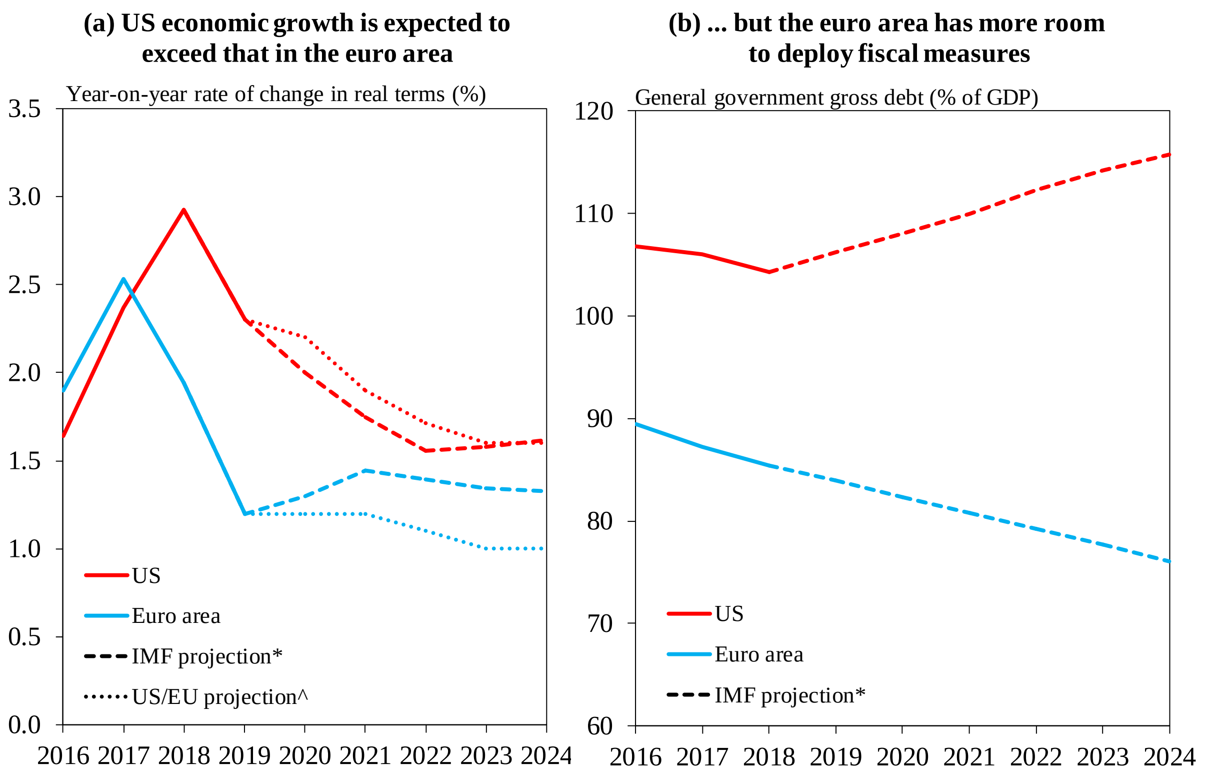
The Mainland economy saw growth deceleration through most of 2019. While its reliance on external demand has diminished significantly over the years as a result of structural transformation, the near-term economic performance will still hinge on the pace of the global economic recovery and how the trade relations with the US evolve. The development of the novel coronavirus infection, especially its duration, is another crucial factor. Looking further ahead, growth is expected to be increasingly driven by innovation, domestic consumption and the services sector, but will inevitably settle at a more moderate pace as the Mainland economy is steadily making the transition towards high-quality and sustainable development. Taking these factors into account, the International Monetary Fund (IMF) projected that the Mainland economy would grow at an average annual rate of 5.7% in 2020-2024, while the Organisation for Economic Cooperation and Development (OECD) projected 5.6%. With its economy projected to grow much faster than the global average, the Mainland is well positioned to remain a key growth driver and stabilising force for the global economy.

Despite the escalation of US-Mainland trade tensions in 2018, the US economy performed quite well that year, with output eventually surpassing the US Congressional Budget Office's estimate of its long-term sustainable level. Overall growth remained decent in 2019. The unemployment rate has steadily declined, recently to lows not seen since the 1960s, thereby underpinning the resilience of private consumption. In the coming few years, as the effectiveness of monetary policy is approaching its limit, barring any significant boost from fresh fiscal stimulus, growth in the US is expected to progressively decelerate towards its long-run potential level, at somewhat below 2% per annum, which is largely based on the underlying trends in productivity, capital investment, and the labour force (***Chart 1a***).

In the euro area, weaknesses in trade and manufacturing activity amid the difficult global economic environment and Brexit-related uncertainties have dampened growth prospects since early 2018, most notably in Germany. Facing a larger-than-expected slowdown in economic growth and persistently weak inflation, the ECB cut interest rates further into negative territory and restarted its asset purchase programme in late 2019. In the medium term, growth of the euro area is likely to stay moderate, given the constraints posed by various structural issues, including a shrinking labour force and the high levels of government debt in some member economies (***Chart 1a***). Much will also depend on the orderly resolution of Brexit during the transition period till the end of 2020. Failing which, the resulting disruptions and uncertainties would inevitably dampen economic activities and sentiment in the euro area, with potential adverse spill-over effects on the global economy.

Box 2.2 (Cont'd)

Chart 1 : GDP and debt projections for the US and the euro area



Sources: (*) World Economic Outlook October 2019 and January 2020 Update; (^) Congressional Budget Office 10-Year Economic Projections, January 2020; European Commission Winter 2020 Economic Forecast; European Commission Debt Sustainability Monitor 2019

An important caveat about the projections of the international organisations (as depicted in ***Chart 1a***) is that they assume the US' level of public debt as a share of GDP will continue to rise, whereas the euro area is on a path of fiscal consolidation (***Chart 1b***) [(1)]. Under this scenario, US interest rates will be subject to upward pressure over time, which the Fed could only offset at the risk of higher inflation. Fiscal consolidation, through either higher taxes, lower public spending, or a combination of both, will invariably push down the US' economic growth until debt sustainability is achieved. Almost the reverse of the US case, growth potential of the euro area's economy could be boosted by additional fiscal measures, particularly if national authorities with fiscal space take up the ECB's recent call for greater public investment.

Turning back to Asia, the consumption tax hike since October 2019 has dealt an additional blow to economic performance in Japan. In the medium-term, various structural issues such as population ageing and elevated public debts will continue to cap Japan's growth potential. The IMF projected Japan's economy to grow at a trend of 0.5% per annum in 2020-24. Meanwhile, developing economies in ASEAN generally eased slightly in 2019 as exports declined amid weakening demand from the advanced economies. Nonetheless, the dampening effect of the global economic slowdown, which has hit both exports and domestic investment, was to some extent cushioned by the still strong private consumption and in some economies like Vietnam and Malaysia also the deflection of a portion of global demand by the US-Mainland trade conflict. Looking ahead, the OECD projected that ASEAN economies as a whole would grow at an average annual rate of 4.9% in 2020-2024, slightly slower than the 5.0% achieved in 2013-2017 but still considerably above the average of advanced economies.

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(1) Projections by US and EU authorities show similar trends but are not based on the same measure of debt.

CHAPTER 3 : THE EXTERNAL SECTOR

Summary

- *Global economic growth softened to a decade low in 2019. Increased trade barriers and the associated uncertainties weighed heavily on economic activities and sentiment worldwide, though US-Mainland trade relations stablised somewhat towards the end of the year as the two sides reached the Phase One trade agreement. While overall US economic growth remained decent, its growth pace decelerated visibly from a high level in 2018. The economies of euro area and Japan registered modest growth. The Mainland economy attained its growth target, but also saw some deceleration in growth. Industrial production and exports of most Asian economies weakened significantly as a result.*

- *Hong Kong's merchandise exports switched to a fall of 5.0% in real terms*[(1)] *in 2019, as the global economic slowdown and US-Mainland trade tensions dampened trading and investment activities worldwide. The year-on-year declines widened successively in the first three quarters, before narrowing in the fourth quarter upon a low base of comparison. Exports to the US recorded a double-digit decrease, and those to the EU likewise turned to a fall. Exports to many Asian markets also worsened.*

- *Exports of services worsened visibly and fell by 10.4% in real terms in 2019, the largest annual decline on record. The fall was particularly drastic in the second half of the year, as the social unrest dealt a severe blow to inbound tourism. Exports of travel services plunged by 21.0% for the year as a whole, the largest annual decline on record. Other services exports were also dragged by mounting external headwinds. Specifically, exports of transport services turned to a visible fall, reflecting subdued cargo and passenger flows. Exports of financial as well as business and other services also declined, as cross-border financial and commercial activities weakened amid softening global economic growth.*

- *The Government continued to make efforts to strengthen economic relations between Hong Kong and its trading partners, with a view to expanding market coverage and creating more room for development. An amendment agreement to enhance the level of liberalisation on trade in services of the Mainland for Hong Kong under the framework of CEPA was signed. The Free Trade Agreement (FTA) and the Investment Agreement (IA) with ASEAN have come into effect gradually since June 2019 and those with Australia entered into force in January 2020. The Government also strived to grasp the opportunities brought about by the Belt and Road Initiative and the development of the Guangdong-Hong Kong-Macao Greater Bay Area.*

Goods trade

Total exports of goods

3.1 Hong Kong's *merchandise exports* fell by 5.0% in real terms in 2019 after a 4.9% growth in the preceding year, as the global economic slowdown and US-Mainland trade tensions dampened trading and investment activities worldwide. The year-on-year declines in merchandise exports widened from 4.2% in the first quarter to 6.1% and 7.2% in the second and third quarters respectively, and then narrowed to 2.4% in the fourth quarter due to a low base of comparison.

3.2 Continuing the moderating trend that started in the second half of 2018, global economic growth softened further in 2019. While overall US economic growth stayed decent, its growth pace decelerated visibly from a high level in 2018 due to weaker exports and private investment. The growth of the euro area economy was only modest, dragged by weakness in exports and manufacturing activity. Japan's economy likewise saw modest growth for the year as a whole, with the consumption tax hike in October dealing an additional blow to economic performance in the fourth quarter. The Mainland economy, though attained its growth target, decelerated to grow by 6.1% amid an austere external environment. Industrial production and exports of most Asian economies weakened significantly as a result. Economic growth of Korea and Singapore decelerated by various degrees, whereas most major emerging market economies in the region saw resilient though moderated growth thanks to strong private consumption. The International Monetary Fund estimated that global economic growth moderated visibly to 2.9% in 2019, the slowest since the Great Recession of 2009.

3.3 US-Mainland economic and trade relations remained generally tense in 2019 though with some ups and downs. Bilateral trade talks started with a positive note with the US delaying the tariff hike on Mainland products originally scheduled on 1 January 2019. The situation took an abrupt turn after May, as the US raised additional tariffs on US$200 billion worth of Mainland products from 10% to 25%, and announced in August additional tariffs on the remaining US$300 billion worth of Mainland products(2). Bilateral relations stabilised somewhat thereafter and the two sides eventually reached the Phase One trade deal. Increased trade barriers and the associated uncertainties weighed heavily on economic activities and sentiment worldwide in 2019, constituting the main cause for the global economic slowdown (see ***Box 3.1***).

3.4 In January 2020, the Mainland and the US signed the Phase One trade agreement, pointing to a more stable bilateral economic and trade relations at least for the time being. The agreement covered areas including intellectual property, technology transfer, agriculture, financial services, and currency and foreign exchange. In particular, it included the Mainland's commitment to make additional purchases of US goods and services in 2020 and 2021 amounting to no less than US$200 billion above the corresponding 2017 baseline. The two sides also agreed to create the Trade Framework Group to discuss the implementation of the agreement and resume macroeconomic meetings to discuss overall economic issues.

3.5 The Brexit process achieved little progress during most of 2019, casting immense uncertainties on the outlook for the United Kingdom (UK) economy and financial markets. A breakthrough was finally made after the ruling Conservative Party won a majority in the UK's general election in December 2019. On 31 January 2020, the UK officially withdrew from the EU and entered a transition period till the end of 2020, during which the two sides will negotiate for a comprehensive trade deal. Other developments in Europe such as socio-political issues in Spain and France, and recently escalated geopolitical tensions in the Middle East also caused market concerns from time to time.

3.6 To mitigate the downside risks to the economic outlook, major central banks took steps in the second half of 2019 to ease monetary policy. Between July and October, the US Federal Reserve cut the target range for the federal funds rate three times, by a total of 75 basis points to 1.50-1.75%. In September the European Central Bank lowered the interest rate on the deposit facility by 10 basis points to -0.5% and from November started another round of bond buying at 20 billion euros per month for an unlimited period. Central banks in other advanced economies and developing economies also generally lowered their interest rates. These actions have rendered some cushion against the impact of various headwinds and helped improve investment sentiment, but they were not enough to revive global economic growth, while also leaving little room for further easing in case downside risks intensify.

Box 3.1

Developments in trade protectionism - an update

The rise of trade protectionism and unilateralism was the key factor causing the global economic slowdown in 2019. In particular, the US-Mainland trade conflict has been the main cause of uncertainty for the global economy since mid-2018. Trade restrictive measures have not only affected trade flows and disrupted global supply chains, but also heightened financial volatility around the globe, with adverse implications for consumption and investment sentiment. This note provides an update to ***Box 3.1*** in the 2018 Economic Background and 2019 Prospects and examines the recent developments of trade protectionism by reviewing the latest statistics compiled by the World Trade Organization (WTO) on Group of Twenty (G20[(1)]) trade measures.

The latest WTO Monitoring Report on G20 Trade Measures[(2)], published in November 2019, covers new trade and trade-related measures implemented by G20 members between mid-May and mid-October 2019 (the review period). Three types of measures are of particular interest here. The first type refers to trade restrictive measures, encompassing actions such as tariff increases, customs procedures and quantitative restrictions. An increase in the number of this type of measures may signal more trade restrictions implemented by G20 members. The second type refers to trade facilitating measures, including actions like reduction in tariffs and simplified customs procedures. A rise in the number of this type of measures may point to less trade restrictions. The third type of measures refers to trade remedy actions[(3)] (both initiated and terminated[(4)]), including investigations of antidumping and countervailing duties. While these investigations do not necessarily lead to the actual implementation of corresponding measures, a rise in number of investigations initiated can be an early indicator of potential trade barriers going forward.

The report showed an increase in the use of trade restrictive measures among G20 members during the review period. On average, 5.6 new measures per month were introduced during the review period, higher than 2.9 per month during the preceding review period (mid-October 2018 to mid-May 2019) though slightly lower than 6.1 per month during 2012 and 2018 (***Table 1***). Among the 28 new trade restrictive measures introduced during the review period, 24 of them were import restrictive measures, of which almost two-thirds were tariff increases. The trade coverage of these import restrictive measures, at US$460 billion (3.05% of the value of G20 merchandise imports), represented an increase of 37% compared to the preceding review period (***Chart 1***).

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(1) G20 comprises 19 countries plus the EU. These countries are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the UK and the US. They together account for more than 80% of gross world output, around three quarters of global trade, and are home to almost two-thirds of the world's population.

(2) The WTO Monitoring Report on G20 Trade Measures neither seeks to pronounce itself on whether a trade measure is protectionist nor questions the right of Members to take certain trade measures. Its coverage may also have limitations. Yet, it can still shed light on the latest trend of trade measures implemented by G20 members that facilitate the flow of trade as well as measures that restrict it. https://www.wto.org/english/news_e/news19_e/report_trdev_21nov19_e.pdf

(3) According to many WTO Members, trade remedy measures are taken to address market distortions resulting from trade practices in another trading partner. WTO Members are permitted to impose duties to offset what is perceived to be injurious dumping or subsidisation of products exported from one Member to another. Termination means either the termination of the investigation (without imposition of a measure) or elimination of the imposed measure.

(4) WTO Monitoring Report on G20 Trade Measures counted anti-dumping or countervailing investigation involving imports from *n* countries/customs territories as *n* investigations. Similarly, a termination of an imposed measure on imports from *n* countries/customs territories is counted as *n* terminations.

Box 3.1 (Cont'd)

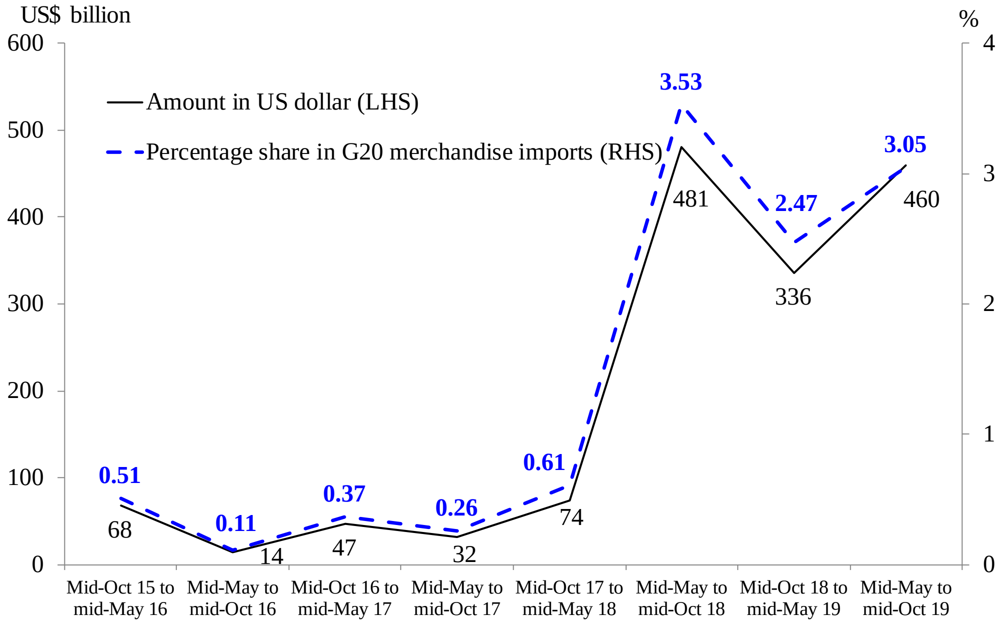
Table 1: Summary of trade measures implemented by G20

	Average per month								
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**mid-Oct 18 to mid-May 19**	**mid-May to mid-Oct 19**
Restrictive measures	6.3	6.9	5.7	7.8	4.9	5.2	5.8	2.9	5.6
Facilitating measures	7.8	5.7	6.5	7.4	6.3	6.8	6.5	4.1	7.2
Remedy actions:									
- **initiations**	16.8	23.2	21.5	17.5	21.8	21.5	18.6	12.3	26.8
- **terminations**	13.4	12.8	14.3	12.6	11.9	9.4	15.1	12.3	9.6

Note: Some past data have been revised, as a result of the changes undertaken in the WTO Trade Monitoring Database to fine-tune and update the available information.

Source: WTO Secretariat.

Chart 1: Trade coverage of the import restrictive measures implemented by G20



Note: Figures are estimated by the WTO. The trade coverage of the import-restrictive measures refers to the amount of annual imports of the products affected by the measures.

Source: WTO Secretariat.

Among the 24 import restrictive measures introduced during the review period, those related to the trade disputes between the US and the Mainland made up the major parts. Measures by the US to impose additional tariffs on products from Mainland accounted for 34.4% of the total estimated trade coverage during the review period; while the Mainland's countermeasures announced in May and August 2019 accounted for another 19.0%. In December 2019 the US and the Mainland reached a Phase One trade agreement, which was subsequently signed on 15 January 2020. Both sides suspended the additional tariffs on each other's imports originally scheduled to take effect from 15 December 2019. The US has also halved the additional tariff rate on about US$120 billion worth of Mainland imports that came into effect since September 2019 to 7.5%, though tariffs of 25% on about US$250 billion worth of Mainland imports remain unchanged.

Box 3.1 (Cont'd)

Meanwhile, the number of new trade facilitating measures increased somewhat. On average, 7.2 new measures per month were implemented during the review period, higher than the average of 4.1 per month in the preceding review period and 6.7 per month during 2012 to 2018. Among the 36 new trade facilitating measures introduced, almost 90% of them were related to reduction or elimination of import tariffs. The estimated trade coverage of these import facilitating measures implemented during the review period was estimated at US$93 billion (or 0.6% of the value of G20 merchandise imports), marking the second lowest share since May 2017.

On trade remedy measures, G20 members initiated on average 26.8 trade remedy investigations per month during the review period, the highest registered since 2012 and more than doubled the 12.3 per month in the preceding review period. The trade coverage of the trade remedy investigations initiated during the review period was estimated at US$17 billion (or 0.11% of the value of G20 merchandise imports), slightly lower than 0.14% recorded in the preceding review period. Meanwhile, the average number of terminations dropped to 9.6 per month during the review period, from 12.3 per month in the preceding period. The trade coverage of terminations was valued at US$4 billion (or 0.03% of the value of G20 merchandise imports), similar to the figure in the preceding review period. Among these 134 trade remedy measures initiated during the review period, over 80% of them were initiations of anti-dumping investigations.

To sum up, rising trade barriers remained a key source of concern. As many trade restrictions implemented earlier are still in force, the WTO noted that the cumulative share of global trade covered by such measures has soared(5), and the adverse impacts on international trade flows have become increasingly visible. In October 2019, the WTO forecast global merchandise trade volume to grow by 1.2% in 2019, representing a substantial mark-down from the 2.6% growth projected in April, as risks to the outlook were heavily skewed to the downside and predominated by trade policy uncertainty. While trade tensions between the US and the Mainland eased somewhat with the signing of the Phase One trade agreement in January 2020, uncertainties about their bilateral economic relations remain as the two sides have yet to tackle their differences in certain key areas. The revised US-Mexico-Canada trade deal (USMCA), though signed into law in the US in January 2020, contained the so-called "poison pill" clause, which required USMCA countries to notify other USMCA members three months in advance if they intend to begin free trade negotiations with non-market economies, such as the Mainland of China. Moreover, trade disputes and policy uncertainties are still notable, and the impasse over the WTO's Appellate Body has not yet been resolved. All these threats to the rules-based multilateral trading system warrant close monitoring.

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(5) WTO estimated in the report that at the end of 2018, 8.8% (or US$1.3 trillion) of G20 imports was affected by import restrictions that had been put in place by G20 economies since 2009 and were still in force, up from 5.3% at the end of 2017. The corresponding figure for the period January to October 2019 was estimated to surge to US$ 1.6 trillion, suggesting that trade restrictive measures rose further.

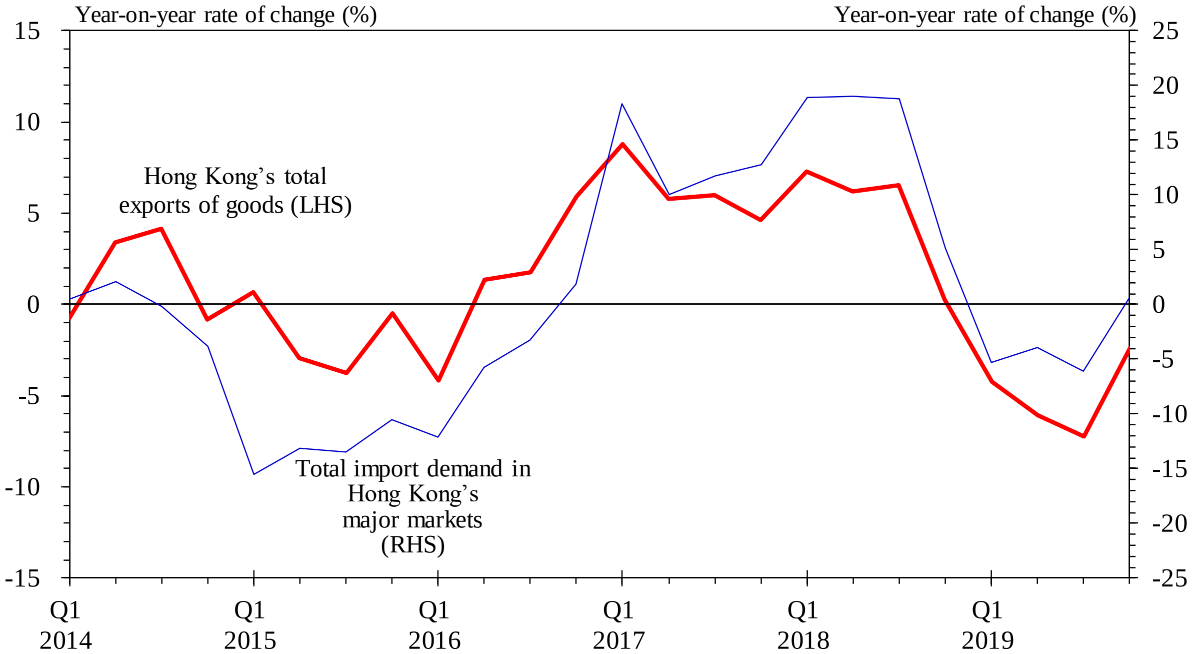
Table 3.1 : Total exports of goods (year-on-year rate of change (%))

		In value terms	In real terms[a]		Change in prices
2018	Annual	7.3	4.9		2.4
	Q1	9.7	7.3	(1.8)	2.3
	Q2	9.0	6.2	(1.0)	2.7
	Q3	9.0	6.5	(1.0)	2.5
	Q4	2.2	0.2	(-3.5)	2.3
2019	Annual	-4.1	-5.0		1.1
	Q1	-2.4	-4.2	(-3.1)	2.2
	Q2	-4.7	-6.1	(-0.6)	1.9
	Q3	-6.4	-7.2	(-0.2)	0.9
	Q4	-2.5	-2.4	(1.7)	-0.2

Notes : ( ) Seasonally adjusted quarter-to-quarter rate of change.

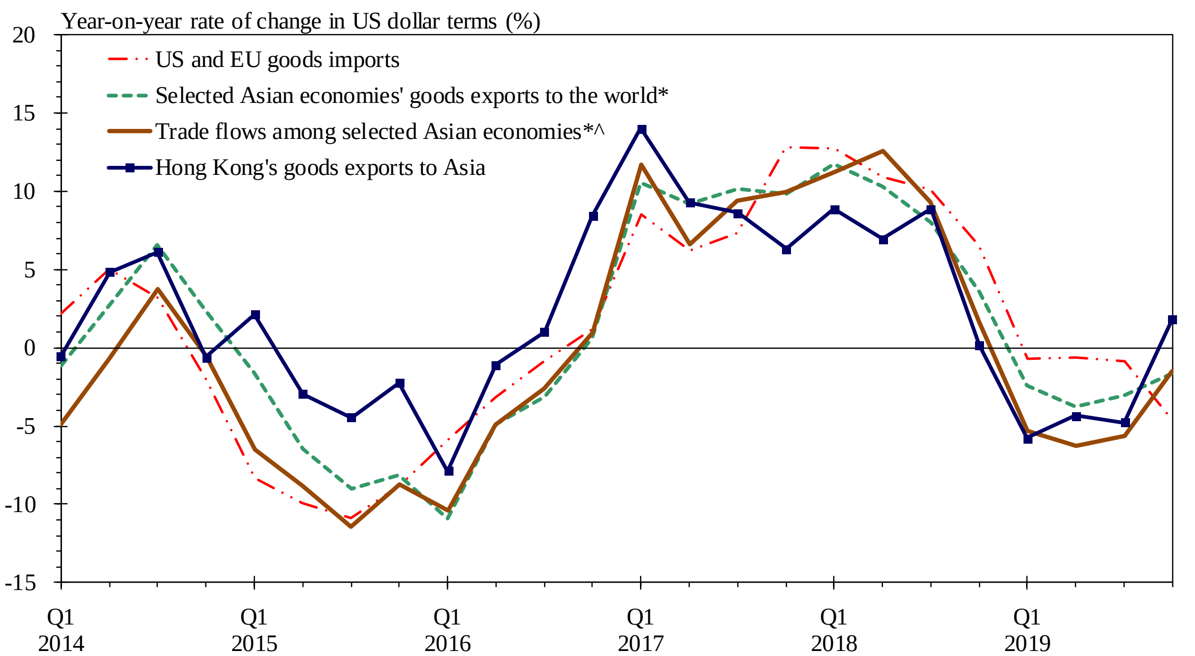
(a) The growth rates here are not strictly comparable with those in the GDP accounts in Table 1.1. Figures in Table 1.1 are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

Diagram 3.1 : Merchandise exports relapsed to a decline in 2019



Note : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in Asia, the United States and the European Union taken together.

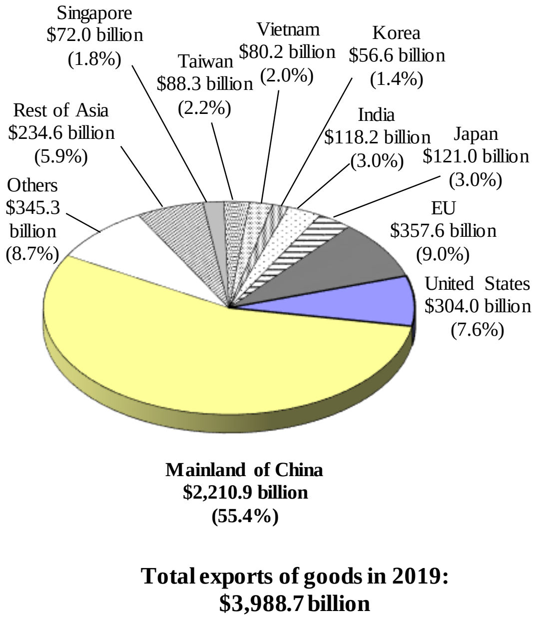
Diagram 3.2 : Softened global economic growth and heightened US-Mainland trade tensions weighed on regional trading activities



Notes : (*) "Selected Asian economies" include the Mainland of China, Hong Kong, Singapore, Korea, Taiwan, Japan, Indonesia, Malaysia, Thailand and the Philippines.

(^) The trade flows were measured by the sum of the individual economies' exports of goods to the other nine economies within the "selected Asian economies".

Diagram 3.3 : Exports to many Asian markets worsened in 2019



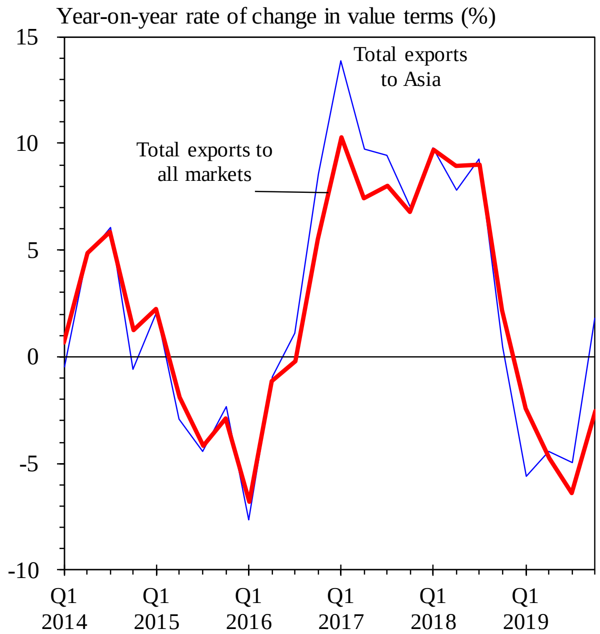


Table 3.2 : Total exports of goods by major market (year-on-year rate of change in real terms (%))

	2018					2019				
	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4
Mainland of China	5.2	9.4	7.7	7.1	-2.3	-5.1	-8.9	-7.7	-7.2	2.9
United States	6.1	5.1	8.2	7.9	3.1	-15.5	-9.9	-14.4	-15.3	-21.5
European Union	8.2	9.1	7.2	7.9	8.5	-5.6	9.0	-1.7	-12.0	-14.5
India	-13.4	-7.6	-33.1	14.3	-21.5	-11.7	-28.6	-1.5	-12.7	-0.9
Japan	-1.3	5.2	2.8	-7.8	-4.1	-7.5	-5.8	-7.3	-3.6	-13.1
Taiwan	-4.8	8.4	-1.9	-18.0	-6.7	4.1	-10.1	-3.2	23.9	9.5
Vietnam	5.2	0.9	7.3	16.7	-2.9	-4.2	-1.6	-6.6	-3.3	-5.1
Singapore	15.1	10.5	19.3	5.6	25.2	8.2	22.5	10.3	-0.1	2.5
Korea	2.5	-3.1	1.5	7.9	3.4	-0.2	4.7	10.0	-5.2	-8.6
Overall*	4.9	7.3	6.2	6.5	0.2	-5.0	-4.2	-6.1	-7.2	-2.4

Note : (*) The growth rates here are not strictly comparable with those in the GDP accounts in Table 1.1. Figures in Table 1.1 are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

3.7 Analysed by major market, exports to the US slackened noticeably to register a double-digit decrease in 2019, weighed by the US' additional tariffs on a wide range of Mainland's products[3] and weakened import demand of the US. Exports to the EU, though less disrupted by trade tensions and seeing solid growth early in the year, weakened progressively thereafter and recorded a fall for the year as a whole amid modest economic growth there.

3.8 Exports to many Asian markets also worsened, as softened global economic growth and uncertainties stemming from US-Mainland trade tensions weighed on regional trading and production activities. For 2019 as a whole, exports to the Mainland and Vietnam turned to a decline. Exports to India continued to fall sharply. As for the higher-income economies, exports to Japan showed an enlarged fall, particularly in the fourth quarter after the consumption tax hike in October. Exports to Korea switched to a mild decline. Exports to Singapore still grew appreciably in 2019 despite some moderation in the second half of the year, while those to Taiwan resumed modest growth due to a surge in exports of raw materials and semi-manufactures and capital goods in the second half of the year.

Diagram 3.4 : Exports to the Mainland recorded a decline

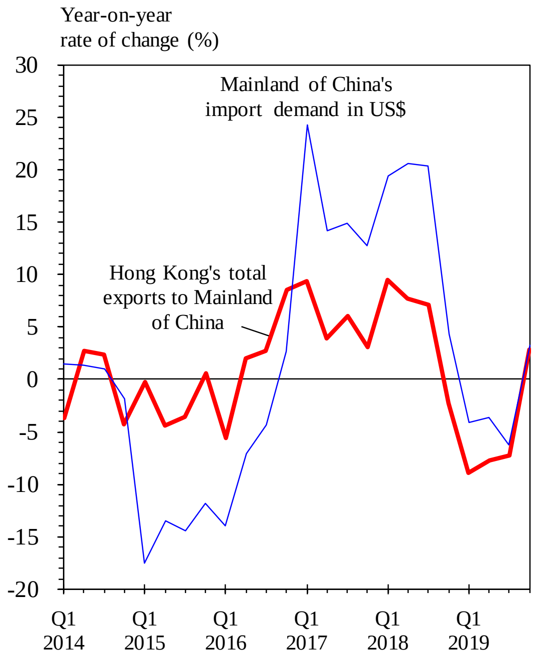


Diagram 3.5 : Exports to the EU turned to a fall

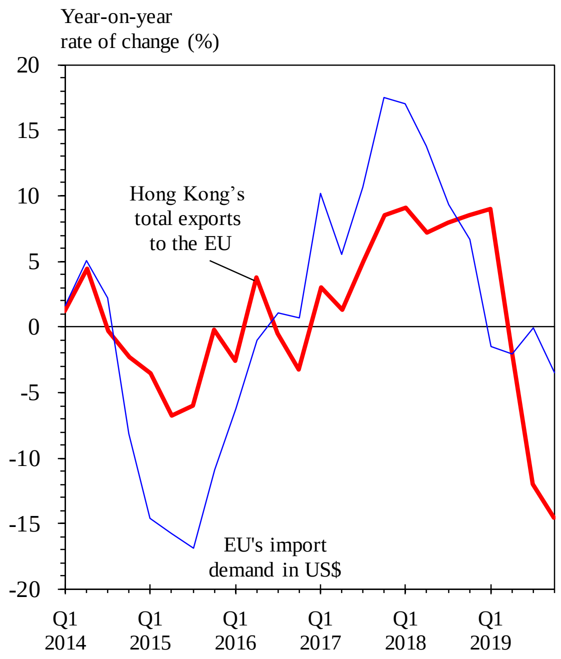


Diagram 3.6 : Exports to the US registered a double-digit decrease

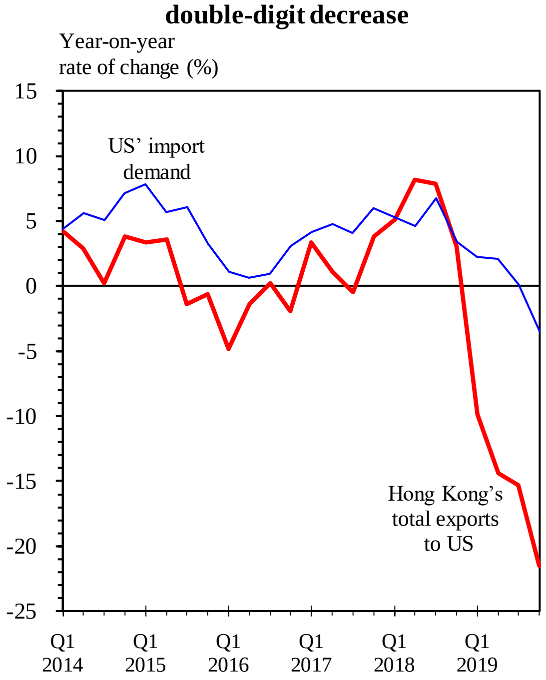


Diagram 3.7 : The fall in exports to Japan widened

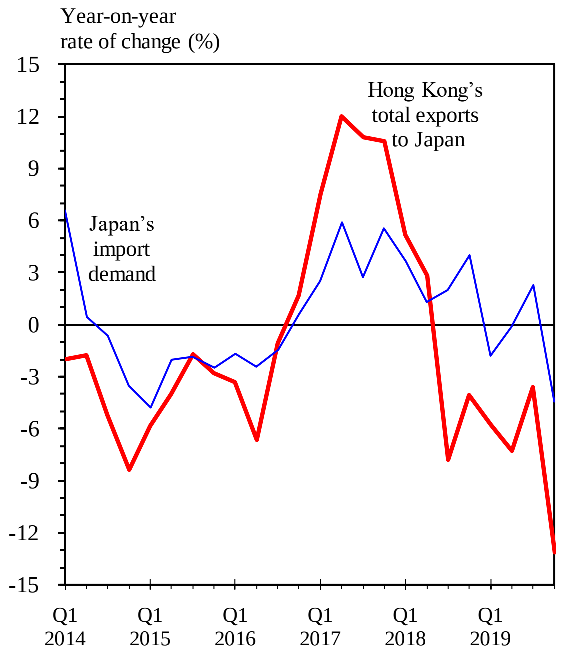


Diagram 3.8 : Exports to India continued to fall sharply

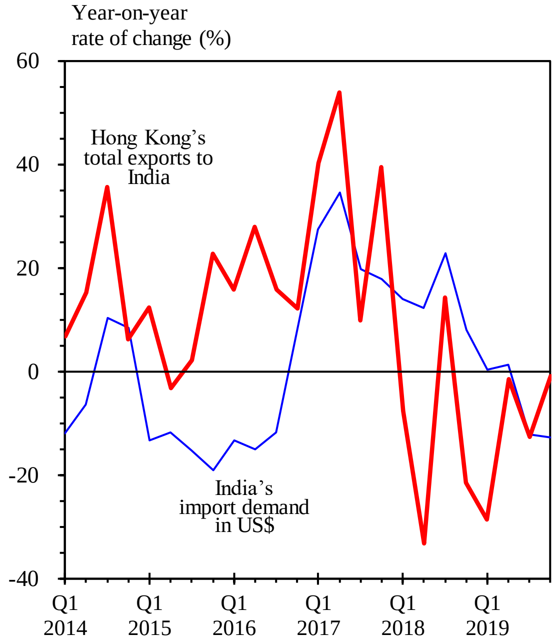


Diagram 3.9 : Exports to Taiwan resumed modest growth

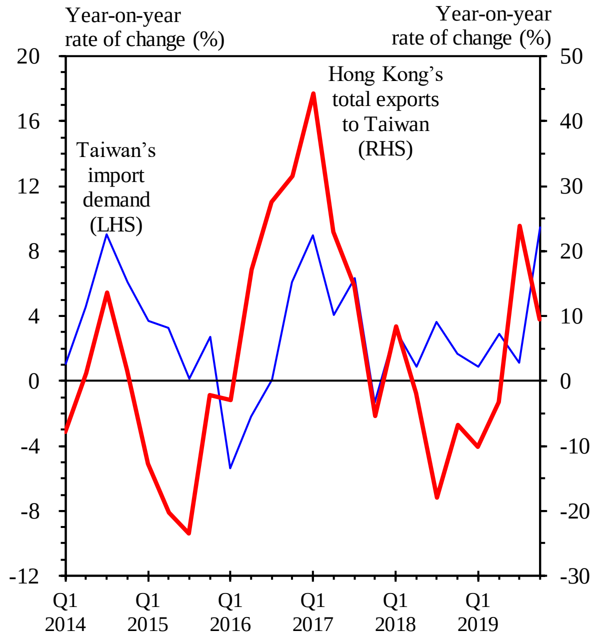


Diagram 3.10 : Exports to Korea relapsed to a decline in the second half of 2019

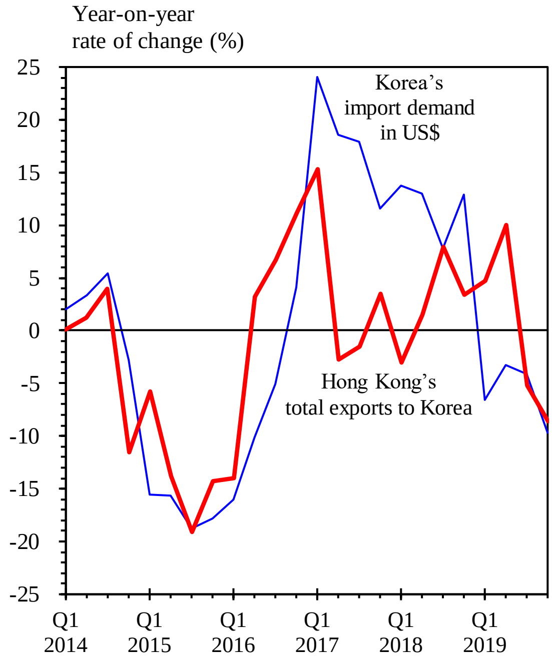
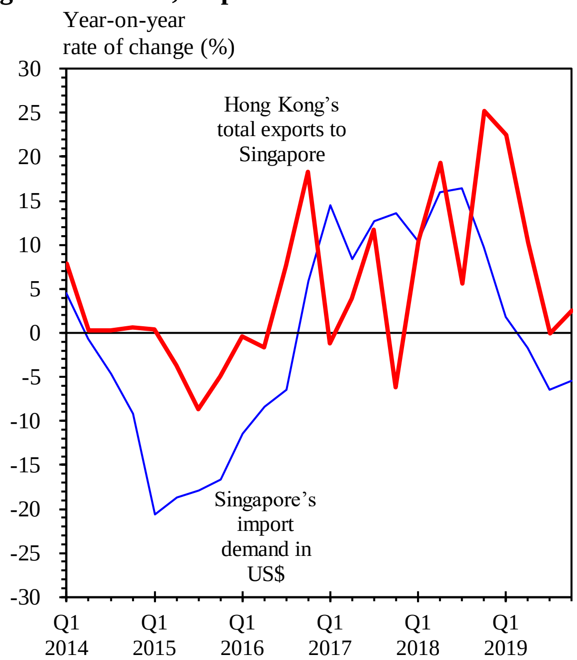


Diagram 3.11 : Exports to Singapore saw appreciable growth in 2019, despite moderation in the second half



Imports of goods

3.9 *Imports of goods* fell markedly by 7.6% in real terms in 2019, having grown by 5.9% in 2018. *Retained imports*, which refer to the imports for domestic use and accounted for around one-quarter of total imports, plummeted by 14.7%, reflecting the significant fall-offs of domestic demand. Imports for subsequent *re-exports*[(4)] also fell noticeably in tandem with the enlarged decline in merchandise exports.

Table 3.3 : Imports of goods and retained imports (year-on-year rate of change (%))

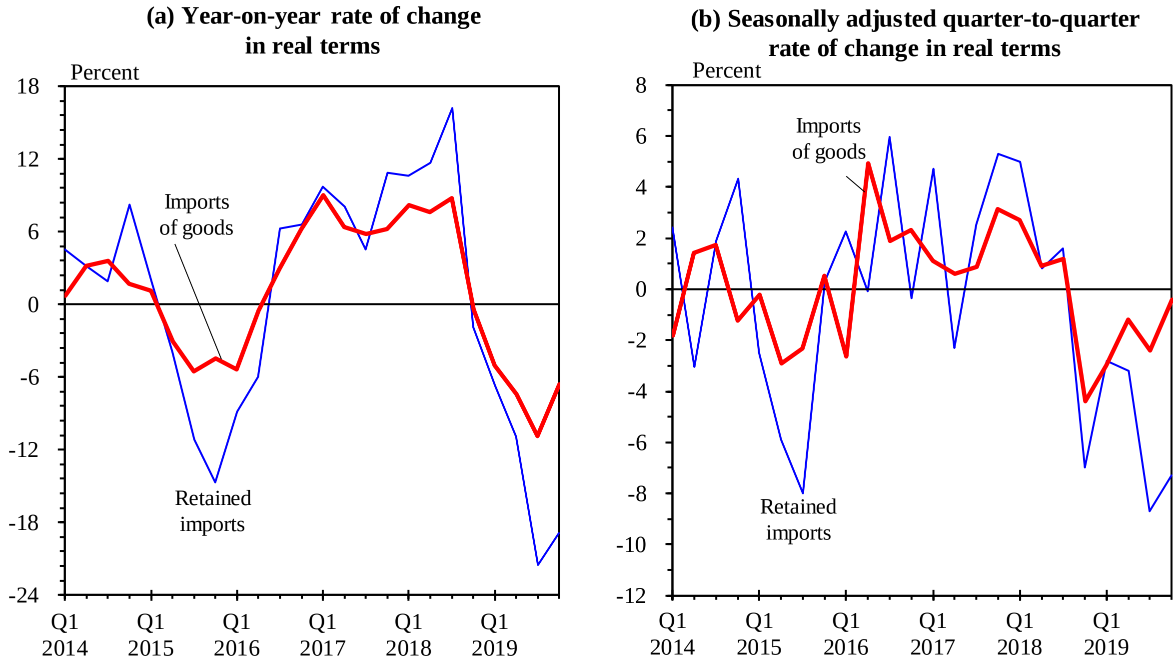
		Imports of goods				Retained imports[(a)]			
		In value terms	In real terms[(+)]		Change in prices	In value terms	In real terms		Change in prices
2018	Annual	8.4	5.9		2.6	10.7	8.7		2.1
	Q1	10.6	8.2	(2.7)	2.3	11.8	10.6	(5.0)	1.5
	Q2	10.4	7.6	(0.9)	2.8	14.0	11.7	(0.8)	2.5
	Q3	11.5	8.8	(1.2)	2.7	18.6	16.2	(1.6)	2.3
	Q4	1.8	-0.4	(-4.4)	2.5	0.2	-1.9	(-7.0)	2.0
2019	Annual	-6.5	-7.6		1.3	-13.2	-14.7		1.6
	Q1	-3.2	-5.0	(-3.0)	2.2	-4.8	-6.7	(-2.8)	2.1
	Q2	-5.7	-7.4	(-1.2)	1.9	-8.5	-10.9	(-3.2)	2.0
	Q3	-10.1	-10.9	(-2.4)	1.0	-20.2	-21.5	(-8.7)	1.4
	Q4	-6.5	-6.6	(-0.4)	0.1	-17.9	-18.9	(-7.3)	1.4

Notes : (a) Based on the results of the Annual Survey of Re-export Trade conducted by the Census and Statistics Department, re-export margins by individual end-use category are estimated and adopted for deriving the value of imports retained for use in Hong Kong.

(+) The growth rates here are not strictly comparable with those in the GDP accounts in Table 1.1. Figures in Table 1.1 are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008.*

( ) Seasonally adjusted quarter-to-quarter rate of change.

Diagram 3.12 : Imports of goods fell markedly in 2019

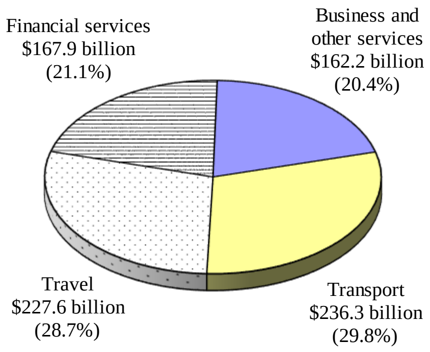


Services trade

Exports of services

3.10 *Exports of services* deteriorated sharply and fell by 10.4% in real terms in 2019, the largest annual decline on record. This followed a solid expansion of 4.6% in 2018. The fall was very steep in the second half of 2019, when the social unrest severely hitting inbound tourism. Exports of travel services plunged by 21.0% for the year as a whole, the largest annual decline on record. Other services exports were also dragged by mounting external headwinds. Specifically, exports of transport services turned to a visible fall, reflecting subdued cargo and passenger flows. Exports of financial as well as business and other services also declined, as cross-border financial and commercial activities weakened amid softening global economic growth.

Diagram 3.13 : Travel, transport and financial services together constituted about 80% of exports of services



Exports of services in 2019:
$793.9 billion

Diagram 3.14 : Exports of services deteriorated sharply in 2019

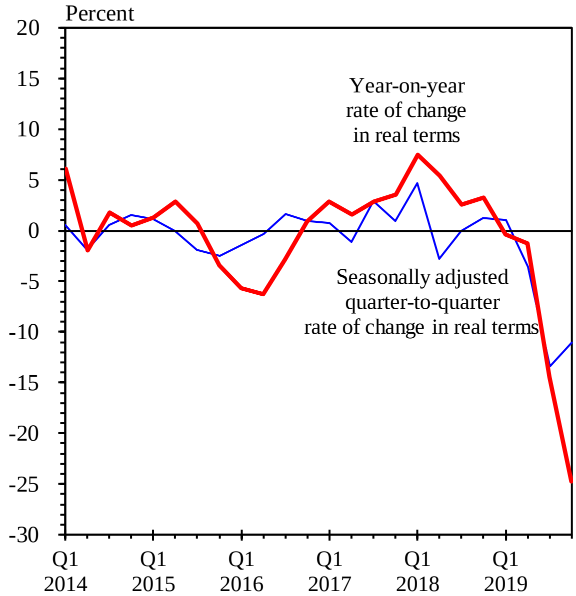


Table 3.4 : Exports of services by major service group (year-on-year rate of change in real terms (%))

			Of which :			
		Exports of services	Transport	Travel[(a)]	Financial services	Business and other services
2018	Annual	4.6	3.4	8.9	2.0	2.1
	Q1	7.5 (4.7)	5.2	12.8	5.7	2.4
	Q2	5.4 (-2.8)	4.0	10.7	3.7	2.2
	Q3	2.6 (*)	2.5	4.9	-1.4	2.5
	Q4	3.2 (1.2)	1.9	7.4	*	1.3
2019	Annual	-10.4	-7.5	-21.0	-2.5	-3.8
	Q1	-0.4 (1.0)	-0.5	2.2	-2.4	-2.6
	Q2	-1.3 (-3.6)	-3.1	1.3	-1.6	-2.3
	Q3	-14.4 (-13.4)	-10.2	-31.5	-2.8	-5.1
	Q4	-24.7 (-11.0)	-16.0	-52.6	-2.8	-5.0

Notes : Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008.*

(a) Comprising mainly inbound tourism receipts.
( ) Seasonally adjusted quarter-to-quarter rate of change.
(*) Change within ±0.05%.

Imports of services

3.11 *Imports of services* switched to a decline of 2.3% in real terms in 2019, after recording a 2.7% growth in 2018. Imports of travel services decelerated in the second half of 2019 and registered only modest growth for the year as a whole, as worsened economic sentiment increasingly weighed on spending of residents travelling abroad. Imports of transport services fell, particularly noticeably in the second half of the year, due to subdued cargo and passenger flows. Imports of manufacturing services recorded a double-digit fall, reflecting the weakness in outward processing activities amid sagging global demand and heightened US-Mainland trade tensions. Imports of business and other services also slackened in the face of the difficult external environment, recording a modest decline for the year as a whole.

Diagram 3.15 : Travel services had the largest share in imports of services

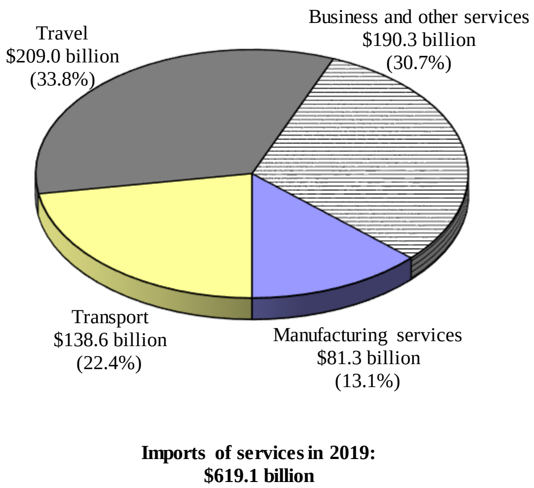


Diagram 3.16 : Imports of services switched to a decline in 2019

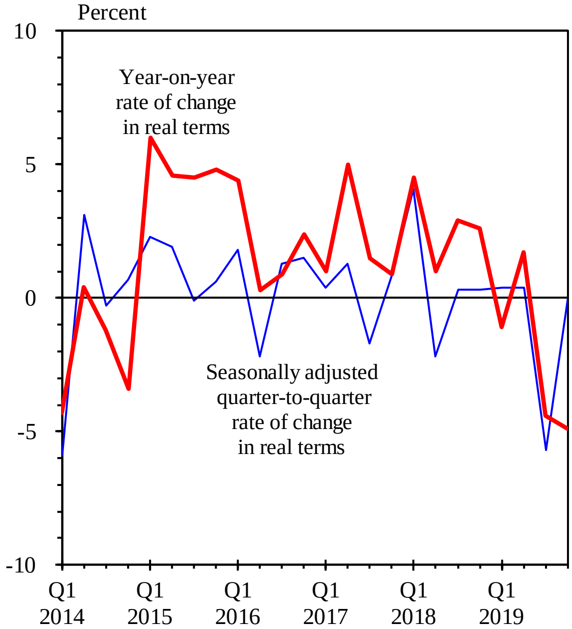


Table 3.5 : Imports of services by major service group (year-on-year rate of change in real terms (%))

		Imports of services		*Of which :* Travel(+)	Transport	Manufacturing services(^)	Business and other services
2018	Annual	2.7		2.3	4.5	-1.6	4.0
	Q1	4.5	(4.1)	6.0	5.1	-0.8	4.7
	Q2	1.0	(-2.2)	-3.8	3.2	3.6	4.2
	Q3	2.9	(0.3)	2.1	4.6	-0.7	4.4
	Q4	2.6	(0.3)	5.4	5.2	-7.3	2.7
2019	Annual	-2.3		2.6	-3.9	-12.5	-1.4
	Q1	-1.1	(0.4)	-0.7	-0.9	-7.7	0.9
	Q2	1.7	(0.4)	10.3	-0.2	-14.3	1.5
	Q3	-4.4	(-5.7)	1.0	-6.0	-15.2	-3.2
	Q4	-4.9	(*)	0.1	-8.4	-11.6	-4.4

Notes : Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008.*

(+) Comprising mainly outbound travel spending.
(^) This includes the value of processing fees paid by Hong Kong to the processing units outside Hong Kong and raw materials / semi-manufactures directly procured by these processing units.
( ) Seasonally adjusted quarter-to-quarter rate of change.
(*) Change within ±0.05%.

Goods and services balance

3.12 Compiled based on the GDP accounting framework, the goods deficit narrowed markedly to $124 billion in 2019, as imports of goods fell by a larger extent than exports of goods. Over the same period, the services surplus shrank to $175 billion. The combined goods and services account registered a surplus of $51 billion in 2019, equivalent to 1.0% of total import value, in contrast to the deficit of $6 billion, or 0.1% of total import value, in 2018.

Table 3.6 : Goods and services balance
($ billion at current market prices)

		Total exports		Imports		Trade balance			
		Goods	Services	Goods	Services	Goods	Services	Combined	As % of imports
2018	Annual	4,453	887	4,706	640	-253	247	-6	-0.1
	Q1	1,019	229	1,093	157	-75	72	-3	-0.2
	Q2	1,067	205	1,156	153	-89	52	-37	-2.8
	Q3	1,185	223	1,236	163	-51	61	9	0.7
	Q4	1,183	229	1,221	167	-38	62	24	1.7
2019	Annual	4,291	794	4,415	619	-124	175	51	1.0
	Q1	999	230	1,065	152	-66	78	11	0.9
	Q2	1,024	203	1,096	153	-72	50	-22	-1.7
	Q3	1,114	190	1,114	154	#	36	36	2.8
	Q4	1,154	171	1,141	160	14	11	25	1.9

Notes : Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

Figures may not add up exactly to the total due to rounding.

(#) Within ±$0.5 billion.

Other developments

3.13 The Government continued to strengthen economic links with the Mainland in 2019. The Fifth Protocol to the Arrangement between the Mainland and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (the Fifth Protocol) was signed in July and entered into force in December. By providing tax relief to eligible Hong Kong and Mainland teachers and researchers working on the other side, the Fifth Protocol would promote academic exchange and cooperation in research and development between the two places. In November, the Agreement Concerning Amendment to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) Agreement on Trade in Services (Amendment Agreement) was signed. The Amendment Agreement introduced new liberalisation measures in a number of important services sectors, allowing more of Hong Kong's quality services to be provided to the Mainland market through making it easier for Hong Kong service suppliers to set up enterprises and develop business in the Mainland and allowing more Hong Kong professionals to obtain qualifications to practise in the Mainland.

3.14 The Government has been sparing no efforts to grasp the opportunities brought about by the development of Guangdong-Hong Kong-Macao Greater Bay Area and the Belt and Road Initiative. Following the promulgation of the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area in February 2019, the 21st Plenary of the Hong Kong/Guangdong Co-operation Joint Conference was held in May. There were nine fruitful outcomes brought about by the joint efforts of both sides, including the signing of the 2019 Work Plan of the Framework Agreement on Hong Kong/Guangdong Co-operation, with consensus reached on a range of areas of co-operation. In September, the Fourth Belt and Road Summit was held to explore and discuss collaboration opportunities under the Initiative, with over 700 one-on-one business-matching meetings for more than 240 projects taking place. In the same month, the Chief Executive led the HKSAR Government delegation to participate in the 2019 Pan-Pearl River Delta (PPRD) Regional Co-operation Chief Executive Joint Conference to discuss various matters with other government leaders of the PPRD provinces/regions, including making use of the PPRD platform to connect with Western Land-Sea Corridor and pursuing close co-operation under the Belt and Road Initiative.

3.15 The Government made further progress in enhancing trade and investment ties with ASEAN, a key economic partner of Hong Kong. Specifically, under the FTA and IA between Hong Kong and ASEAN, those parts relating to Hong Kong and six ASEAN member states, namely Laos, Myanmar, Singapore, Thailand, Vietnam and Malaysia, entered into force during 2019. The implementation of the Agreements has brought legal certainty, better market access, and fair and equitable treatment in trade and investment, thus creating new business opportunities and further enhancing trade and investment flows between Hong Kong and the six ASEAN member states. In February 2019, the Hong Kong Economic and Trade Office (ETO) in Bangkok commenced operation, marking the opening of the third ETO in the ASEAN region. In November the Government signed the memorandum of understanding (MoU) on strengthening economic relations with Thailand. The MoU covers a wide range of co-operation areas including trade and investment, enterprise partnerships, creative industries, financial services, technology start-ups and enterprises, and human resource development.

3.16 Meanwhile, the Government continued to pursue FTAs and IAs with other trading partners of Hong Kong, with a view to enhancing economic co-operation with other economies as well as assisting enterprises in diversifying markets and securing better market access. For example, the Hong Kong - Georgia FTA entered into force in February 2019. Hong Kong signed a FTA and an IA with Australia in March, which came into force in January 2020. Besides, Hong Kong also signed an IA with the United Arab Emirates in June, and that with Chile came into force in July. The agreements are expected to provide more business opportunities and enhance trade and investment flows between Hong Kong and these places. The Government also signed three comprehensive avoidance of double taxation agreements/arrangements (CDTA) during the year, namely those with Cambodia, Estonia and Macao, with the total number of CDTAs rising to 43 by end-2019.

Notes :

(1) Changes in merchandise exports and imports in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates. Estimates of price changes for the trade aggregates are based on changes in unit values, which do not take into account changes in the composition or quality of the goods traded, except for some selected commodities for which specific price indices are available. The real growth figures reported here are based on the external trade quantum index series compiled using the chain linking approach, which were first released in March 2015 to replace the previous trade index numbers compiled using the Laspeyres method with a fixed base year. The series are not comparable with the real trade aggregates under GDP (reported in Chapter 1) which are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*. Apart from this, non-monetary gold is recorded as a separate item in the statistics of merchandise trade and not included in the trade aggregates reported in Chapter 2, but is included in the trade aggregates under GDP in accordance to the international compilation standard.

(2) In August 2019, the US announced 10% additional tariffs on the remaining US$300 billion worth of Mainland's products for implementation in two batches starting from 1 September 2019 and 15 December 2019 respectively. Later in the month, the US announced that the additional tariff rate was raised to 15%. The US also announced to raise the rate of additional tariffs on US$250 billion worth of Mainland's products from 25% to 30% starting from October. The first batch of US' 15% additional tariffs on US$300 billion worth of Mainland products and the corresponding Mainland's countermeasures took effect on 1 September. The scheduled hike in tariff rate on US$250 billion worth of Mainland products were subsequently suspended after the principal-level trade talks between the two sides held on 10-11 October. In December the US announced that the additional tariff rate on around US$120 billion worth of Mainland's products would be halved to 7.5%, and the tariff measures originally scheduled on 15 December were suspended.

(3) It is crudely estimated that, based on the annual merchandise trade figures for 2018 (without taking into account the temporary exemptions of 437 Mainland products as announced by the US in September 2019 and the new tariff measures that became effective on 1 September 2019), around HK$144 billion worth of Hong Kong's re-exports of Mainland origin to the US were affected by the various batches of additional tariffs introduced by the US in the third quarter of 2018, equivalent to around 3.5% of Hong Kong's total exports of goods. After the implementation of additional tariffs in September 2019, the share of affected re-exports increased to around 6.0% of Hong Kong's total exports of goods. Taken together, the value of the affected re-exports turned to a year-on-year decline of 3.4% in the fourth quarter of 2018 and plunged by 23.8% in 2019, in contrast to the increase of 7.8% in the first three quarters of 2018 combined. The performance was much worse than total exports of goods to all markets, which decelerated in growth from 9.2% in the first three quarters of 2018 combined to 2.2% in the fourth quarter of 2018 and then slackened further to show a 4.1% decline in 2019. Separately, the US President signed the Hong Kong Human Rights and Democracy Act into law in November 2019. The uncertainty caused by the Act would affect the confidence of international investors and companies in Hong Kong, and damage the mutually beneficial relationship, including the US' interests.

(4) Re-exports are those goods which have previously been imported into Hong Kong and are subsequently exported without having undergone in Hong Kong any manufacturing processes which change permanently the shape, nature, form or utility of the goods.

CHAPTER 4 : DEVELOPMENTS IN SELECTED SECTORS

Summary

- *Having stayed generally active during the first five months of 2019, the residential property market quietened visibly since June, as sentiment was dampened by a weaker global economy, the US-Mainland trade tensions, the local social incidents, as well as their impacts on local economic outlook. While flat prices generally softened since June, they on average still recorded a cumulative increase of 5% during the whole year.*

- *Reflecting the Government's sustained efforts to increase land and flat supply, total private flat supply in the coming three to four years would stay at a high level of 93 000 units as estimated at end-2019. Meanwhile, the various demand-side management measures yielded notable results, with speculative activities and non-local demand remaining low, and investment activities staying modest in 2019.*

- *Likewise, the commercial and industrial property markets turned more sluggish in the second half of 2019 amid subdued economic conditions. For the year as a whole, prices declined markedly, while rentals exhibited diverse movements. Trading activities were subdued for all major market segments.*

- *Inbound tourism recorded visible expansion in the first half of 2019, but saw an abrupt deterioration in the second half as the local social incidents with violence took a heavy toll. Overall visitor arrivals plunged by 14.2% to 55.9 million for 2019 as a whole, the steepest annual decline on record.*

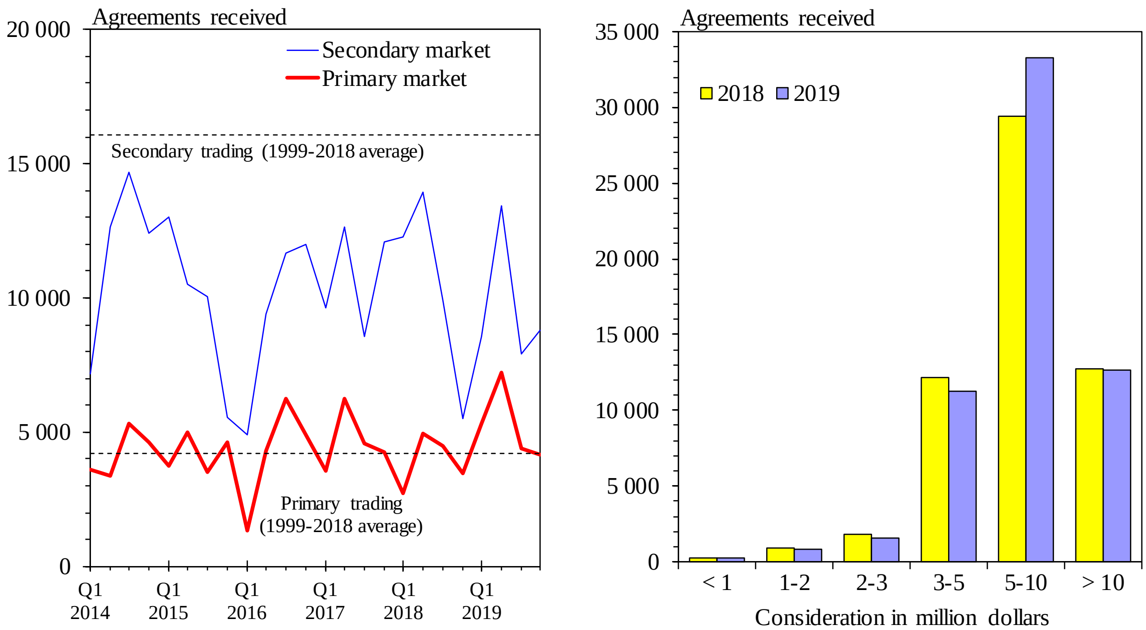
- *Dragged by weak global and regional trade flows, the logistics sector stayed lacklustre throughout 2019. Total container throughput declined by 6.3%, and air freight throughput by 6.1%.*

Property

4.1 Having stayed generally active during the first five months of 2019, the *residential property market* quietened visibly since June, as sentiment was dampened by a weaker global economy, the US-Mainland trade tensions, the local social incidents, as well as their impacts on local economic outlook. In consequence, flat prices generally softened since June, reversing the rebound in the preceding five months.

4.2 For 2019 as a whole, the total number of sale and purchase agreements for residential property received by the Land Registry rose by 4% to 59 797, mainly reflecting the buoyant trading situation in the first five months. Yet this was still much below the long-term average of 81 164 from 1999 to 2018. Within the total, primary market transactions soared by 35% to 21 108 as developers paced up the launch of new projects in the first half of the year, while secondary market transactions dropped by 7% to 38 689. Total consideration declined by 2% to $548.8 billion.

Diagram 4.1 : Trading activities were buoyant in the first five months of 2019 before turning quieter in the rest of the year

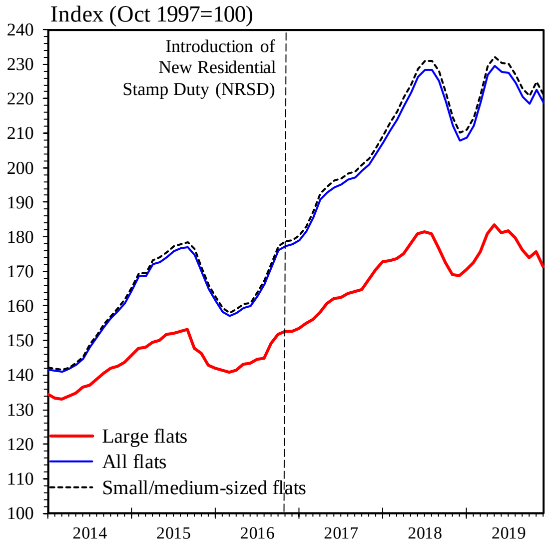


4.3 Flat prices in December 2019 on average retreated by 5% from the recent peak in May. Yet given the hefty gain in the first few months of 2019, there was still an increase of 5% over December 2018. Analysed by size, prices of small/medium-sized flats and large flats went up by 5% and 2% respectively during the year.

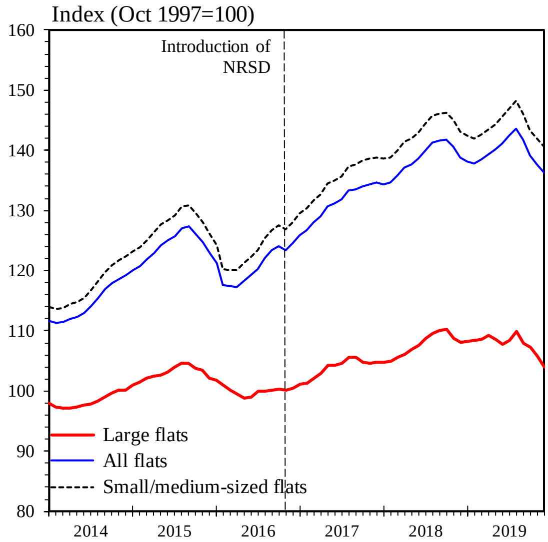
4.4 The leasing market also cooled off, with flat rentals reverting to a decline since the latter part of the third quarter. As a result, flat rentals in December 2019 on average retreated by 5% from the recent peak in August and were 2% lower than December 2018. Analysed by size, rentals of small/medium-sized flats and large flats declined by 2% and 4% respectively during the year. Reflecting the movements of prices and rentals, the average rental yield for residential property went down from 2.6% a year earlier to 2.4% in December 2019.

Diagram 4.2 : Flat prices generally softened since June 2019, and rentals also reverted to a decline since the latter part of the third quarter

(a) Prices



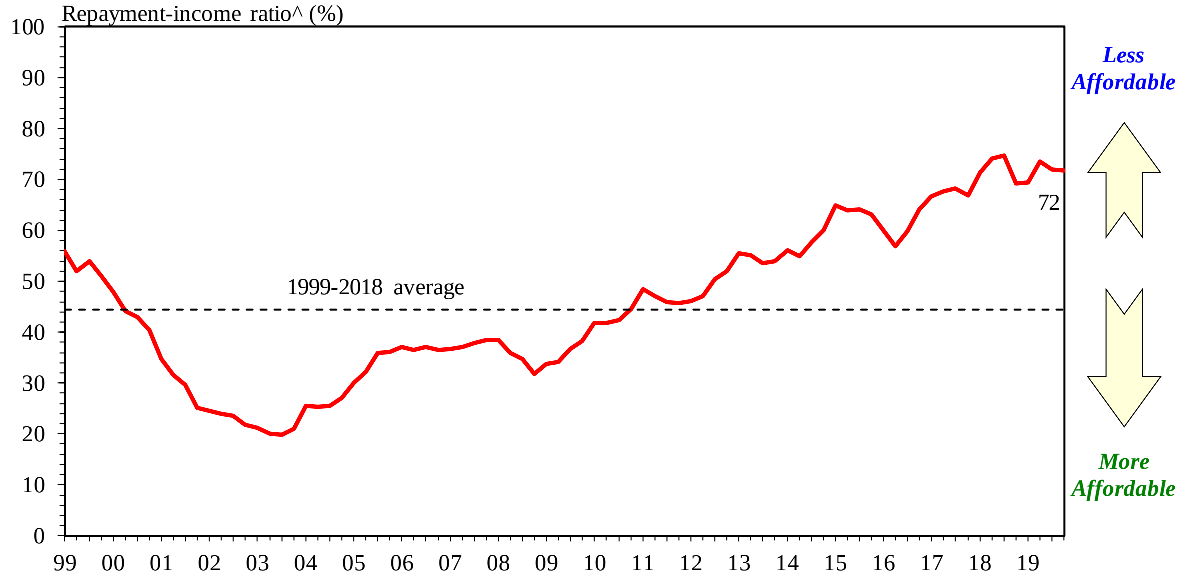
(b) Rentals



Note : Residential property price index pertains to secondary market transactions only. Large flats refer to those with a saleable area of at least 100 m^2, and small/medium-sized flats with a saleable area of less than 100 m^2.

4.5 Mainly reflecting the rally in the past few years, flat prices in December 2019 exceeded the 1997 peak by 119%. The index of home purchase affordability (i.e. the ratio of mortgage payment for a 45-square metre flat to median income of households, excluding those living in public housing) stayed elevated at around 72% in the fourth quarter, significantly above the long-term average of 44% over 1999-2018[(1)]. Should interest rates rise by three percentage points to a more normal level, the ratio would soar to 93%.

Diagram 4.3 : The index of home purchase affordability stayed elevated



Note : (^) The ratio of mortgage payment for a 45m² flat (assuming 70% loan-to-value ratio and tenor of 20 years) to median income of households (excluding those living in public housing).

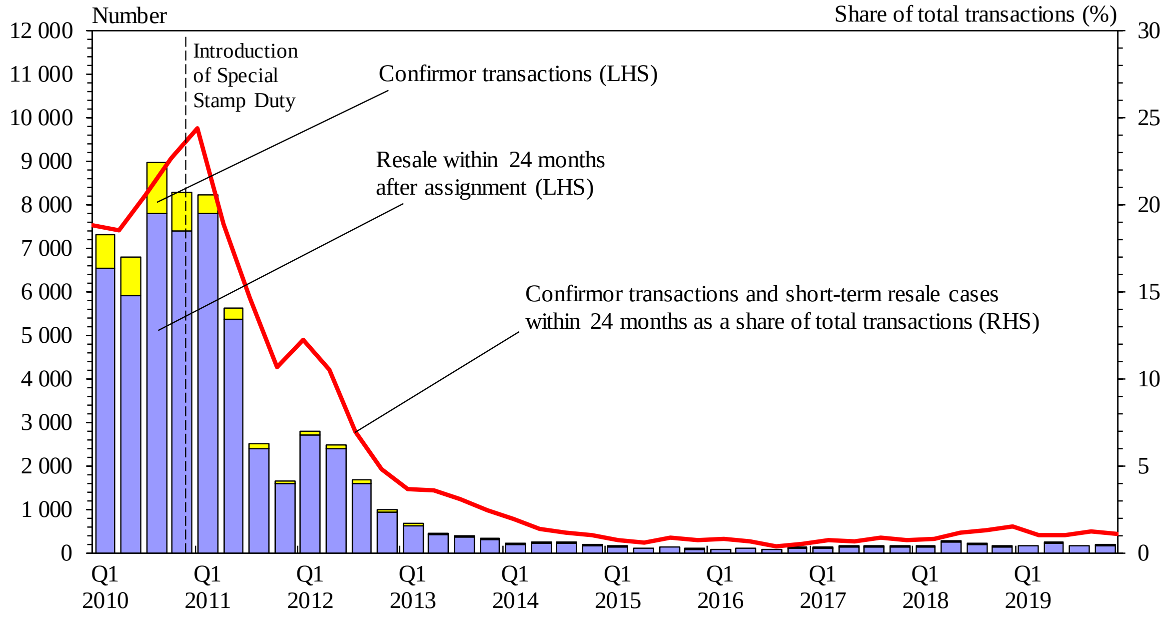
4.6 Raising flat supply through increasing land supply is a key policy of the Government. As announced in December 2019, a total of 9 residential sites were sold or would be put up for sale by the Government under the 2019-20 Land Sale Programme, capable of providing about 6 300 units in total. Combining the various sources (including Government land sale, railway property development projects, the Urban Renewal Authority's projects, and private development and redevelopment projects), the total private housing land supply in 2019-20 is estimated to have a capacity to provide about 11 900 units.

4.7 Reflecting the Government's sustained efforts in raising land supply, the *total supply of flats* in the private sector in the coming three to four years (comprising unsold flats of completed projects, flats under construction but not yet sold and flats on disposed sites where construction can start any time) would stay at a high level of 93 000 units as estimated at end-2019. Another 3 900 units could be added to the total supply after the conversion of a number of residential sites into "disposed sites".

4.8 The demand-supply balance of private flats remained tight for the time being. The gross completions of private flats retreated by 35% to 13 600 units in 2019. After netting off demolition of 900 units, the net completions of 12 700 units were lower than the take-up of 19 300 units(2). As a result, the vacancy rate fell from 4.3% at end-2018 to 3.7% at end-2019, and stayed below the long-term average of 5.0% over 1999-2018. The Rating and Valuation Department forecasts gross completions at 20 900 units in 2020 and 18 900 units in 2021(3), compared with the average of 13 500 units per annum in the past ten years (2010-2019).

4.9 Over the past several years, the Government has also implemented demand-side management and macro-prudential measures to dampen speculative, investment and non-local demand, and to reduce the possible risks to financial stability arising from an exuberant property market(4). These measures have yielded notable results. On *speculative activities*, the number of short-term resale (comprising confirmor transactions and resale within 24 months after assignment) remained low at 59 cases per month or 1.1% of total transactions in 2019, well below the monthly average of 2 661 cases or 20.0% in January to November 2010 (i.e. the period before the introduction of the Special Stamp Duty). Reflecting the effects of the Buyer's Stamp Duty, *purchases by non-local individuals and non-local companies* also stayed low at 51 cases per month or 0.9% of total transactions in 2019, much lower than the monthly average of 365 cases or 4.5% in January to October 2012. As an indicator of *investment activities*, purchases subject to the New Residential Stamp Duty stayed at a modest level of 382 cases per month or 7.0% of total transactions in 2019, markedly lower than the monthly average of 1 412 cases subject to Double Stamp Duty or 26.5% in January to November 2016. As to *mortgage lending*, the average loan-to-value ratio of new mortgages was 48% in 2019, likewise considerably below the average of 64% in January to October 2009 before the first round of macro-prudential measures for residential property mortgage lending was introduced by the Hong Kong Monetary Authority.

Diagram 4.4 : Speculative activities stayed subdued



Note : Confirmor transactions refer to resale before assignment.

Diagram 4.5 : Purchases by non-local buyers stayed low

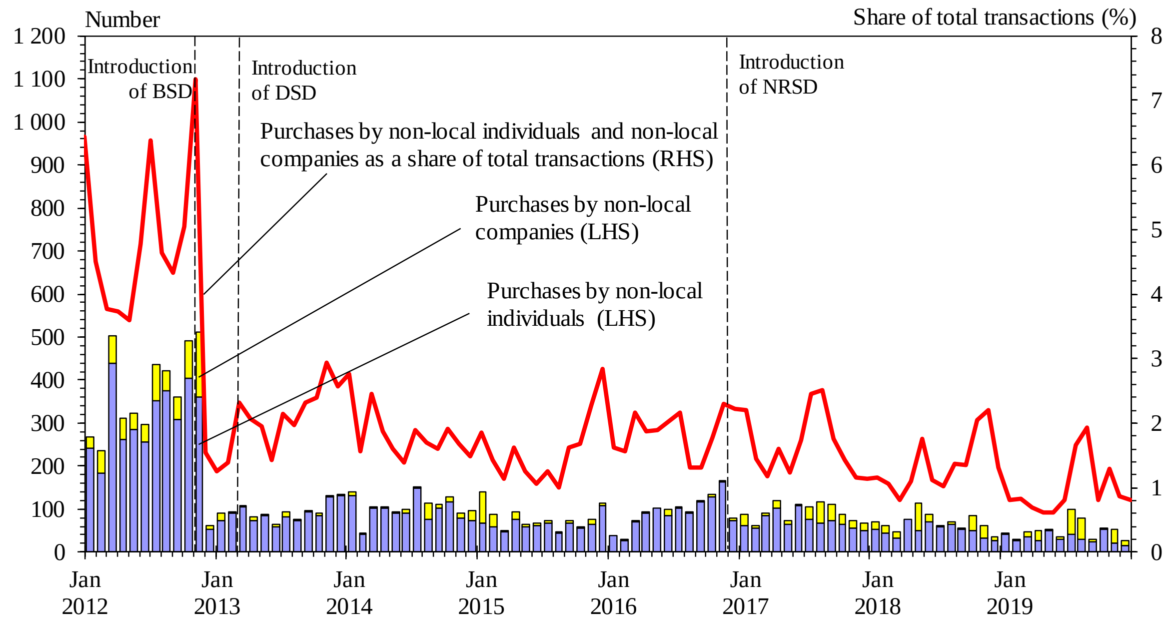
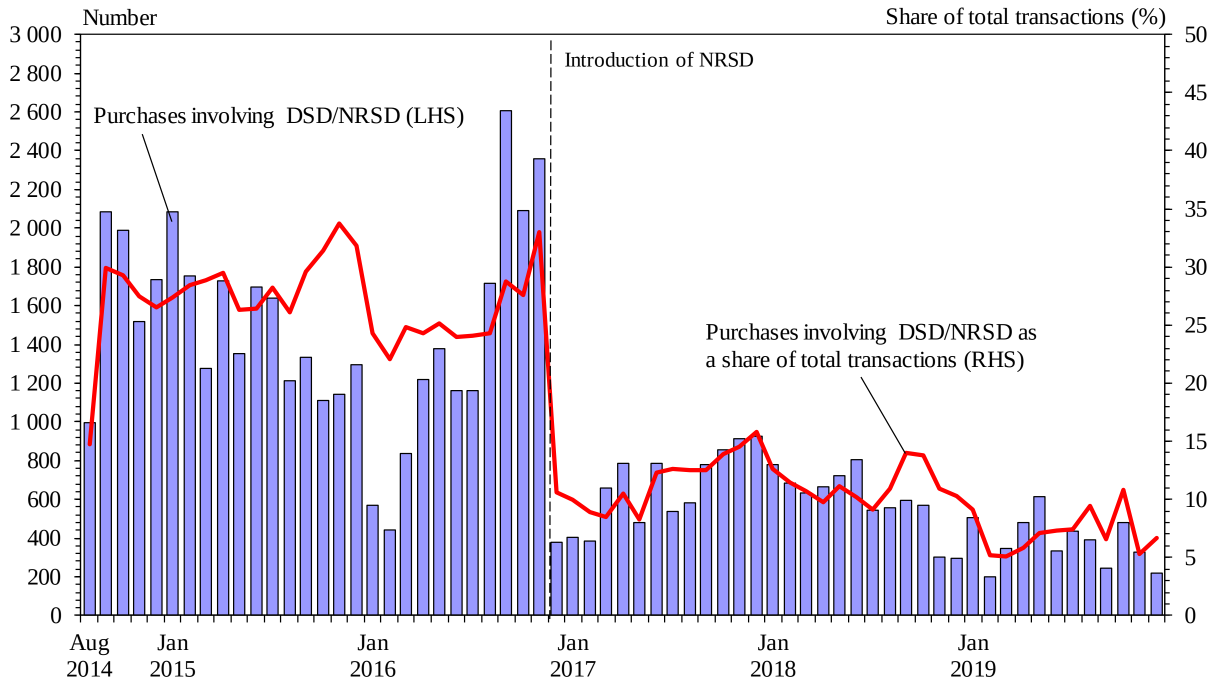


Diagram 4.6 : Investment activities were modest



4.10 Likewise, the *commercial* and *industrial property markets* turned more sluggish in the second half of 2019 amid subdued economic conditions. For the year as a whole, prices declined markedly, while rentals exhibited diverse movements. Trading activities were weak for all major market segments.

4.11 Prices of *office space* on average fell by 3% between December 2018 and December 2019. Analysed by office class, prices of Grade A, B and C office space declined by 5%, 7% and 8% respectively(5). Over the same period, office rentals on average were little changed. Within the total, rentals of Grade A office space rose by 1%, rentals of Grade B office space were virtually unchanged, and rentals of Grade C office space retreated by 1%. The average rental yields of Grade A, B and C office space were 2.3%, 2.9% and 3.1% respectively in December 2019, compared with 2.2%, 2.7% and 2.9% a year earlier. Sales transactions for office space shrank by 35% to a record low of 860 cases in 2019. As to the demand-supply balance, as the completion of 266 900 m^2 was significantly higher than the take-up of 147 000 m^2, the vacancy rate rose from 8.6% at end-2018 to 9.0% at end-2019, yet still below the long-term average of 9.3% over 1999-2018.

4.12 Prices and rentals of *retail shop space* fell by 14% and 5% respectively between December 2018 and December 2019, reflecting the correction in the second half of the year amid the sharp deterioration in retail trade. As a result, the average rental yield rose from 2.4% to 2.7% over the period. Sales transactions plunged by 32% to a record low of 1 310 cases in 2019[(6)]. As the take-up of 8 300 m^2 was much lower than the completion of 117 500 m^2, the vacancy rate rose from 9.4% at end-2018 to 10.1% at end-2019, staying above the long-term average of 8.8% over 1999-2018.

4.13 Prices of *flatted factory space* declined notably by 8% between December 2018 and December 2019, while rentals were little changed. Reflecting these movements, the average rental yield rose from 2.7% to 3.0% over the period. Sales transactions plummeted by 50% to a low level of 2 410 cases in 2019. As the take-up of 60 300 m^2 was higher than the completion of 56 200 m^2, the vacancy rate went down from 6.3% at end-2018 to 5.9% at end-2019, below the long-term average of 7.3% over 1999-2018.

Diagram 4.7 : Prices of non-residential properties declined markedly during 2019, while rentals exhibited diverse movements

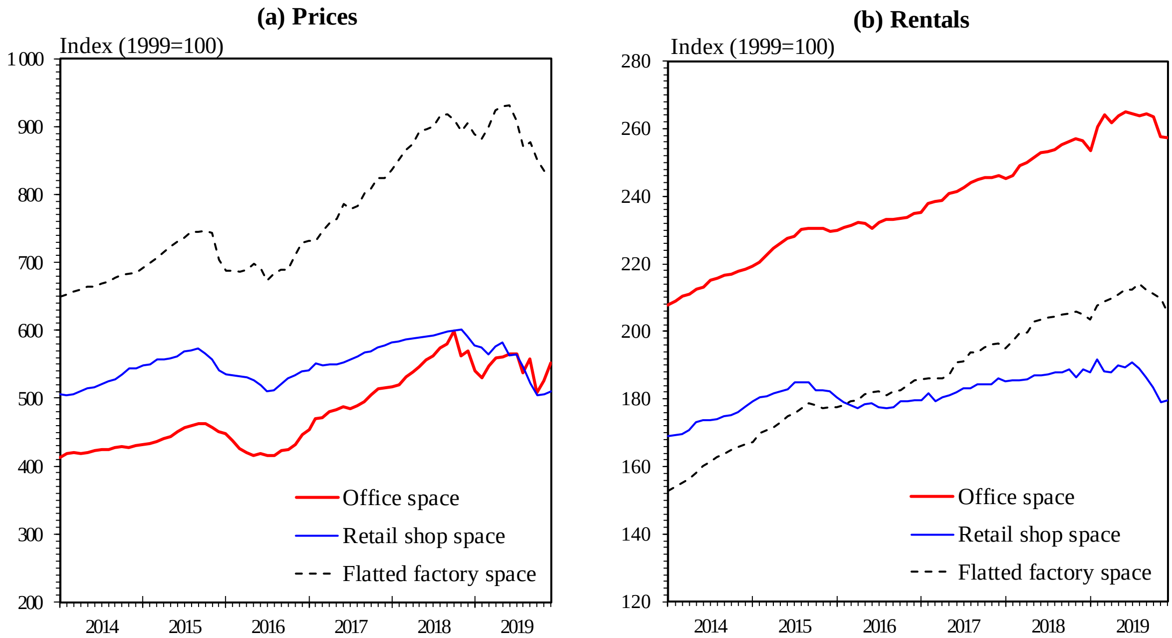
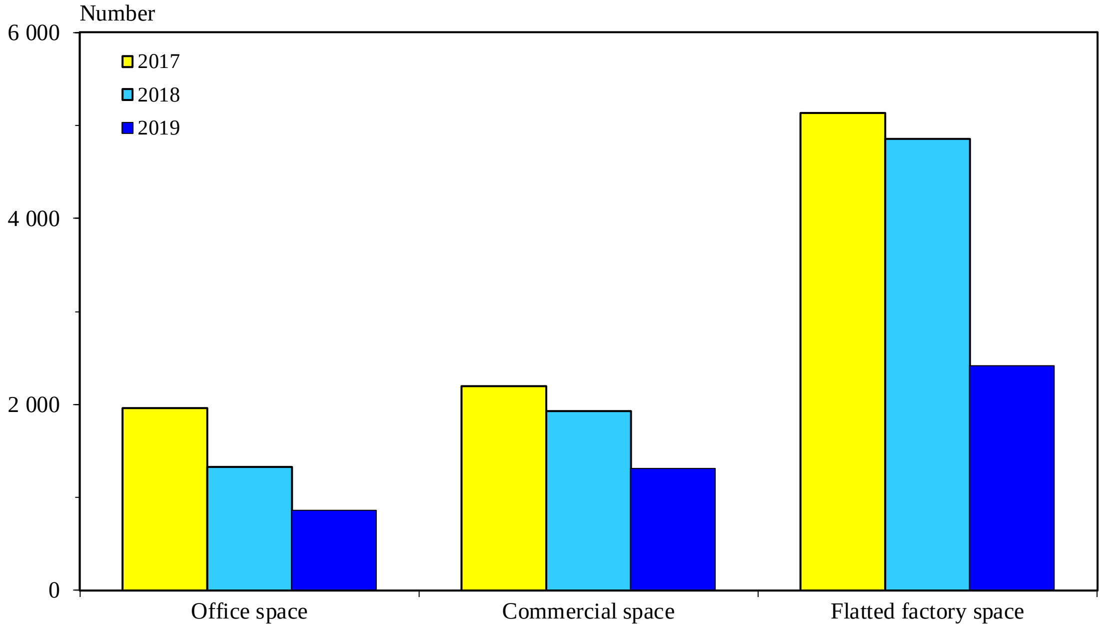


Diagram 4.8 : The volumes of sales transactions for commercial and industrial properties shrank further in 2019



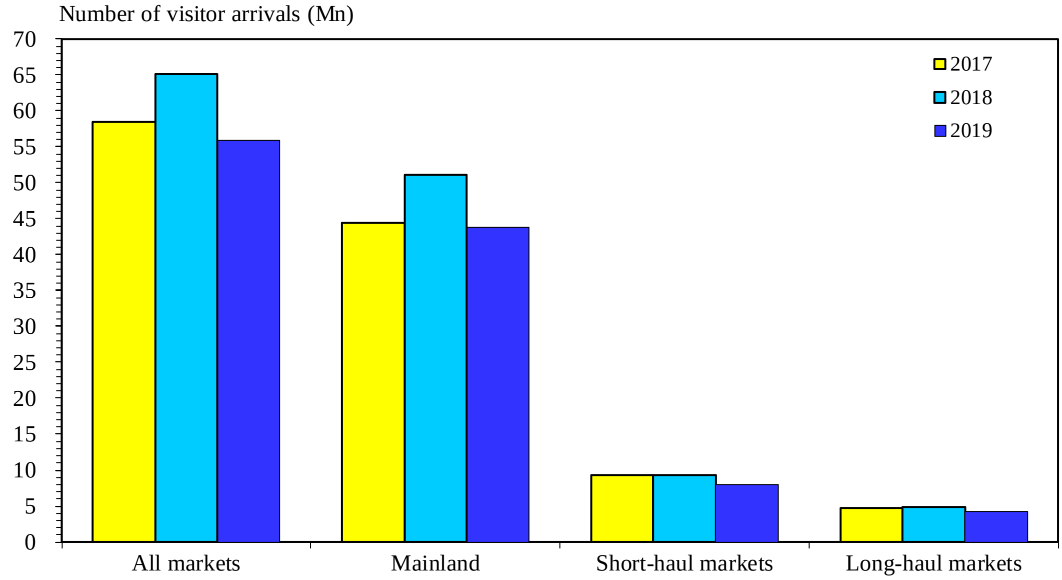
Land

4.14 Twenty-one sites with a total area of about 21.1 hectares were disposed of in 2019, fetching a land premium of about $135.4 billion. Among these sites, there were 11 residential sites, one commercial/hotel site, one commercial site and eight sites for petrol filling station. In addition, the tender exercise for a residential site in Tuen Mun commenced in the fourth quarter. Regarding exchange of land, five sites with a total area of about 13.5 hectares were approved in 2019. As to lease modifications, a total of 54 sites were approved.

Tourism

4.15 Inbound tourism recorded visible expansion in the first half of 2019, but saw an abrupt deterioration in the second half as the local social incidents with violence took a heavy toll. Overall *visitor arrivals* plunged by 14.2% to 55.9 million for 2019 as a whole, the steepest annual decline on record. Reflecting the intensified violence in the local social incidents in October and November, the year-on-year fall in visitor arrivals widened from 26.0% in the third quarter to 50.5% in the fourth quarter. Visitors from all major markets plummeted in 2019, with Mainland visitors, which accounted for 78.3% of the total, falling by 14.2% to 43.8 million. Visitor arrivals from short-haul markets and long-haul markets also dropped by 14.6% and 12.7% respectively(7). Visitor spending, as reflected by exports of travel services, declined sharply by 21.0% in real terms in 2019.

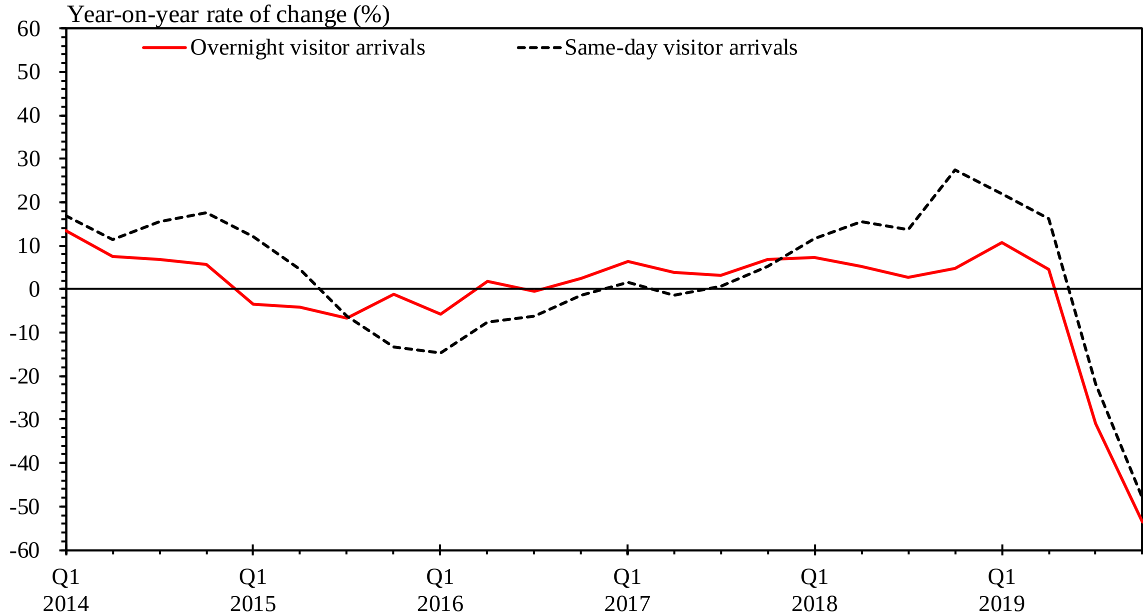
Diagram 4.9 : Visitors from all major markets plummeted during 2019



Note : See note (7) at the end of this chapter for the definition of short-haul and long-haul markets.

4.16 Analysed by the length of stay, both overnight visitor arrivals and same-day visitor arrivals fell sharply in 2019, by 18.8% and 10.4% respectively. Reflecting these movements, the share of overnight visitors decreased from 44.9% in 2018 to 42.5% in 2019, while that of same-day visitors rose from 55.1% to 57.5%.

Diagram 4.10 : Both overnight visitor arrivals and same-day visitor arrivals fell sharply in 2019

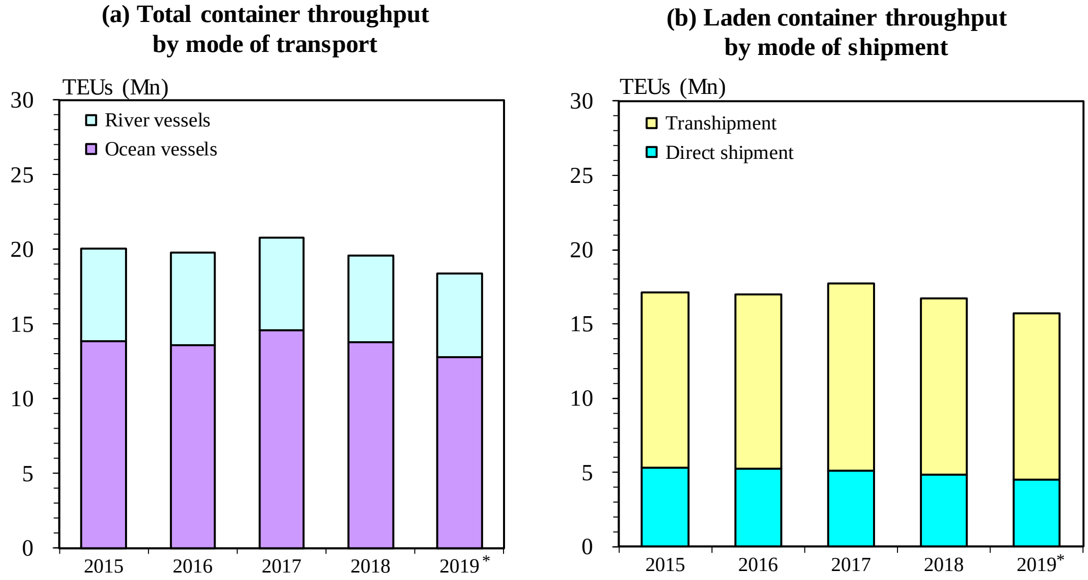


4.17 The hotel sector was hit hard by the drastic drop in visitor arrivals in the second half of 2019. The average hotel room occupancy rate fell distinctly from 91% in 2018 to 79% in 2019. The decline was particularly pronounced in the second half, with the average hotel room occupancy rate falling from 92% and 88% respectively in the first and second quarters to 72% in the third quarter and further to 65% in the fourth quarter. The average achieved hotel room rate also decreased visibly by 12.4% to $1,206[8] in 2019.

Logistics

4.18 Dragged by weak global and regional trade flows, the logistics sector stayed lacklustre throughout 2019. *Total container throughput* declined further, by 6.3% to 18.4 million twenty-foot equivalent units (TEUs). Within the laden container throughput, direct shipment and transhipment fell by 6.0% and 6.2% respectively. The value of trade handled at the Hong Kong port fell notably by 11.3% in 2019, while its share in total trade shrank further from 17.2% in 2018 to 16.1% in 2019.

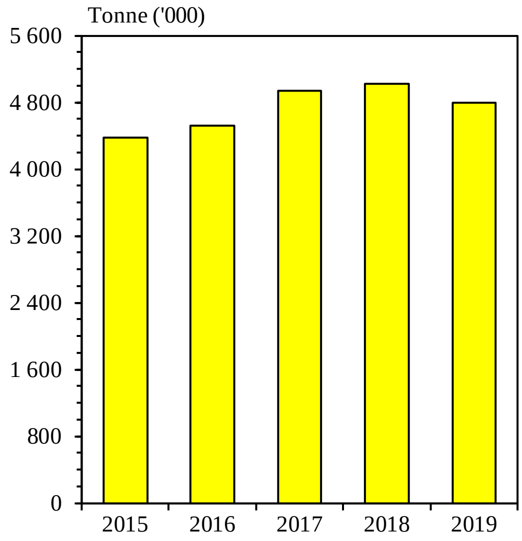
Diagram 4.11 : Container throughput declined in 2019

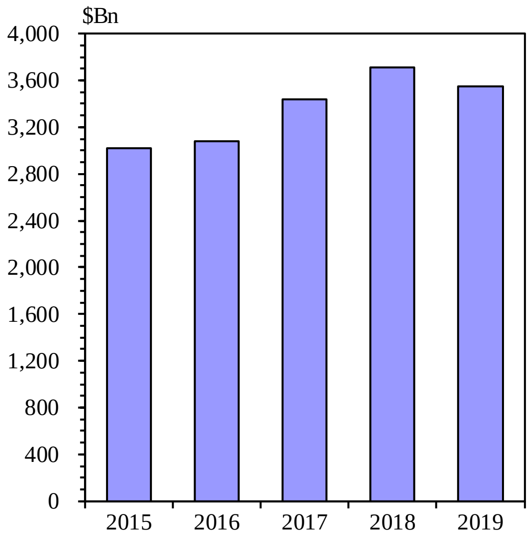


Note : (*) Total container throughput for 2019 is the preliminary estimate by Hong Kong Maritime and Port Board. Its breakdown by mode of transport and the laden container throughput by mode of shipment are crudely estimated from the profile in the first eleven months of 2019.

4.19 *Air freight throughput* likewise slackened and fell by 6.1% to 4.8 million tonnes in 2019, the first annual decline since 2011. The value of trade by air dropped by 4.3%, but its share in total trade rose from 41.8% in 2018 to 42.2% in 2019.

Diagram 4.12 : Air freight throughput and the value of trade handled by air both slackened and fell in 2019





Note : (*) Not including transhipment.

Transport

4.20 Cross-boundary traffic flows for the different major modes of transport recorded a mixed performance in 2019. Reflecting the sharp fall in visitor arrivals in the second half, air passenger traffic declined by 4.2% to 71.5 million trips in 2019, the first annual decline since 2009. Water-borne passenger trips plummeted by 37.3% to 16.1 million, whereas land-based passenger trips edged up by 0.2% to 236.2 million, due partly to the ongoing substitution of passenger trips following the operation of the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Zhuhai-Macao Bridge. Meanwhile, average daily cross-boundary vehicle movements rose by 1.0% to 43 413.

Environment

4.21 In December 2019, the first meeting of the Hong Kong-Guangdong Joint Working Group on Environmental Protection and Combating Climate Change was held. At the meeting, the two governments reviewed the progress of collaboration on improving the air quality in the Pearl River Delta region, protecting the water environment, and enhancing co-operating in forestry and marine resources conservation. In addition, the work plan for 2020, which included formulating the post-2020 regional air pollutant emission measures and targets, strengthening collaboration on air quality forecasting, and jointly exploring technologies and measures to monitor marine refuse, was endorsed.

Notes :

(1) Starting from the fourth quarter of 2019, the index of home purchase affordability is calculated based on, among others, the mortgage rates of new mortgage loans with reference to both the Best Lending Rate (BLR) and the Hong Kong Interbank Offered Rate (HIBOR). Also, the index for the third quarter of 2019 has been revised retrospectively based on the revised mortgage rates. As such, the data for the third and fourth quarters of 2019 may not be strictly comparable with those in previous quarters, which were based on the mortgage rates of new mortgages loans with reference to the BLR only.

(2) Take-up figures represent the net increase in the number of units occupied. The figures are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year's demolition and the year-end vacancy figures. Take-up should not be confused with the sales of new developments, and it bears no direct relationship to the number of units sold by developers. Negative take-up means that there is a decrease in the number of units occupied (i.e. property previously occupied was released during the year and remained vacant at the year-end). Also, take-up, demolition, completion and vacancy figures on residential and non-residential properties are preliminary figures from the Rating and Valuation Department, and are subject to revision.

(3) Forecast completions in 2020 and 2021 are preliminary figures only, and are subject to revision upon the availability of more data.

(4) For details of the measures promulgated in 2010, see Box 3.1 in the First Quarter Economic Report 2010, Box 3.1 in the Third Quarter Economic Report 2010 and note (2) at the end of Chapter 4 in the 2010 Economic Background and 2011 Prospects. For details of the measures promulgated in 2011, see note (2) at the end of Chapter 3 in the Half-yearly Economic Report 2011 and Box 3.1 in the Third Quarter Economic Report 2011. For details of the measures promulgated in 2012, see Box 3.1 in the Third Quarter Economic Report 2012 and Box 4.1 in the 2012 Economic Background and 2013 Prospects. For details of the measures promulgated in 2013, see Box 4.2 in the 2012 Economic Background and 2013 Prospects and Box 3.1 in the First Quarter Economic Report 2013. For details of the measures promulgated in 2014, see Box 4.1 in the 2013 Economic Background and 2014 Prospects. For details of the measures promulgated in 2015, see Box 3.1 of the First Quarter Economic Report 2015. For details of the measures promulgated in 2016, see note (1) at the end of Chapter 4 in the 2016 Economic Background and 2017 Prospects. For details of the measures promulgated in 2017, see note (3) at the end of Chapter 3 in the First Quarter Economic Report 2017, note (2) at the end of Chapter 3 in the Half-yearly Economic Report 2017 and Box 3.1 of the Third Quarter Economic Report 2017. For details of the measures promulgated in 2018, see Box 3.1 in the Half-yearly Economic Report 2018 and Box 3.1 of the Third Quarter Economic Report 2018. For details of the measures promulgated in 2019, see Box 3.1 of the Third Quarter Economic Report 2019.

(5) The overall price index of office space is compiled by calculating a weighted average of the price indices of Grade A, B and C office space. The weightings are based on the total floor area transacted of the respective categories in the current and previous 11 months. As the respective weightings of Grade A, B and C office floor area transacted showed visible changes between December 2018 and December 2019, the decline in the overall prices of office space during this period was smaller than the individual declines in the prices of Grade A, B and C office space.

(6) The figures on transaction and vacancy rate refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-built office space.

(7) Short-haul markets refer to North Asia, South and Southeast Asia, Taiwan and Macao, but exclude the Mainland. Long-haul markets refer to the Americas, Europe, Africa, the Middle East, Australia, New Zealand and South Pacific. In 2019, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for 78%, 14% and 8% respectively of total visitors.

(8) The figures on hotel room occupancy and achieved room rate do not include guesthouses.

CHAPTER 5 : THE FINANCIAL SECTOR[#]

Summary

- *The US Federal Open Market Committee lowered the target range for the Federal Funds Rate three times by a total of 75 basis points to 1.50-1.75% during 2019. Accordingly, the Hong Kong Monetary Authority (HKMA) adjusted the Base Rate under the Discount Window downwards thrice to 2.00%. As to interest rates at the retail level, most major banks lowered their Best Lending Rates following the rate cut in the US in late October.*

- *The Hong Kong dollar spot exchange rate weakened against the US dollar in the early part of 2019, but stabilised in the third quarter and strengthened in the fourth quarter. Meanwhile, as the US dollar strengthened against some major currencies including the euro and renminbi, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices picked up by 0.9% and 0.7% respectively during 2019.*

- *Despite the worsened economic conditions in the second half of the year, total loans and advances registered a growth of 6.7% during the whole 2019. Within the total, loans for use in and outside Hong Kong rose by 7.1% and 5.8% respectively.*

- *The local stock market exhibited considerable volatility in 2019, as market sentiment swung along the abrupt changes in overseas and local situations. The Hang Seng Index closed the year at 28 190, 9.1% higher than end-2018. Trading activities in the local stock market were active in early 2019 but quietened down over the course of the year, while fund raising activities were lacklustre during most of 2019. Yet, Hong Kong continued to rank first globally in terms of the amount of funds raised through initial public offerings (IPOs) in 2019.*

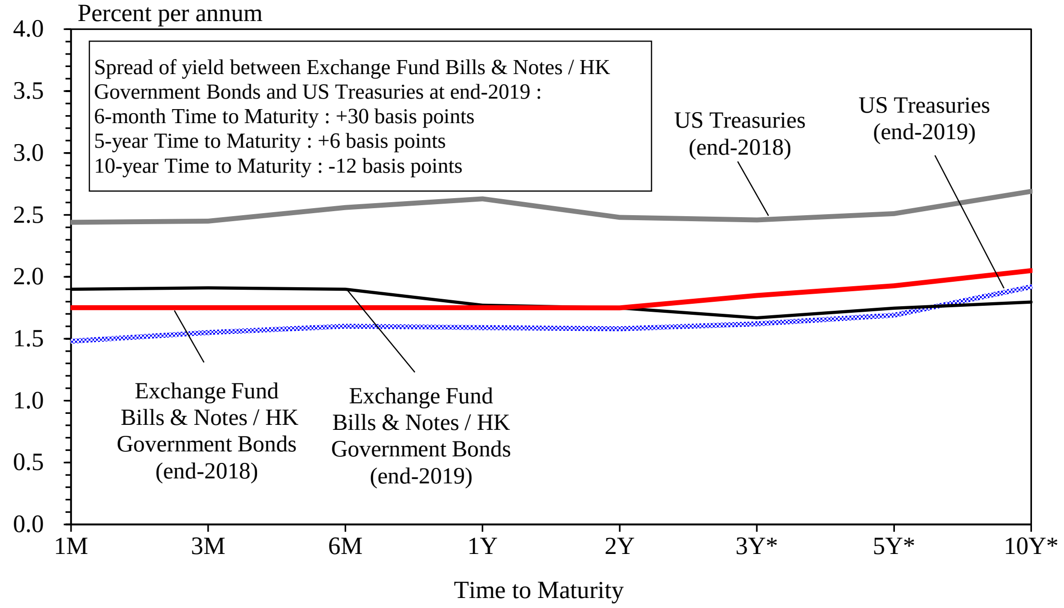
(#) This chapter is jointly prepared by the Hong Kong Monetary Authority and the Office of the Government Economist.

Interest rates and exchange rates

5.1 The US Federal Open Market Committee lowered the target range for the Federal Funds Rate three times by a total of 75 basis points to 1.50-1.75% during 2019. Accordingly, the HKMA adjusted the *Base Rate* under the Discount Window downwards thrice from 2.75% to 2.00%. Yet reflecting the pick-up in the overnight and 1-month *Hong Kong dollar interbank interest rates* (HIBORs) in the latter part of the year, the Base Rate went higher than 2.00% occasionally in November and December, and closed at 2.49% at end-2019(1). The overnight and 3-month HIBORs were 4.56% and 2.43% respectively at end-2019, compared with 4.60% and 2.33% at end-2018.

5.2 *Hong Kong dollar yield curve* flattened in 2019, as yields for tenors between 1 month and 1 year rose and those for longer tenors declined. Meanwhile, *US dollar yield curve* shifted downwards. Reflecting these movements, the yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills turned from negative 81 basis points at end-2018 to positive 30 basis points at end-2019. The negative yield spread between the 10-year Hong Kong Government Bonds and 10-year US Treasury Notes narrowed from 64 basis points to 12 basis points.

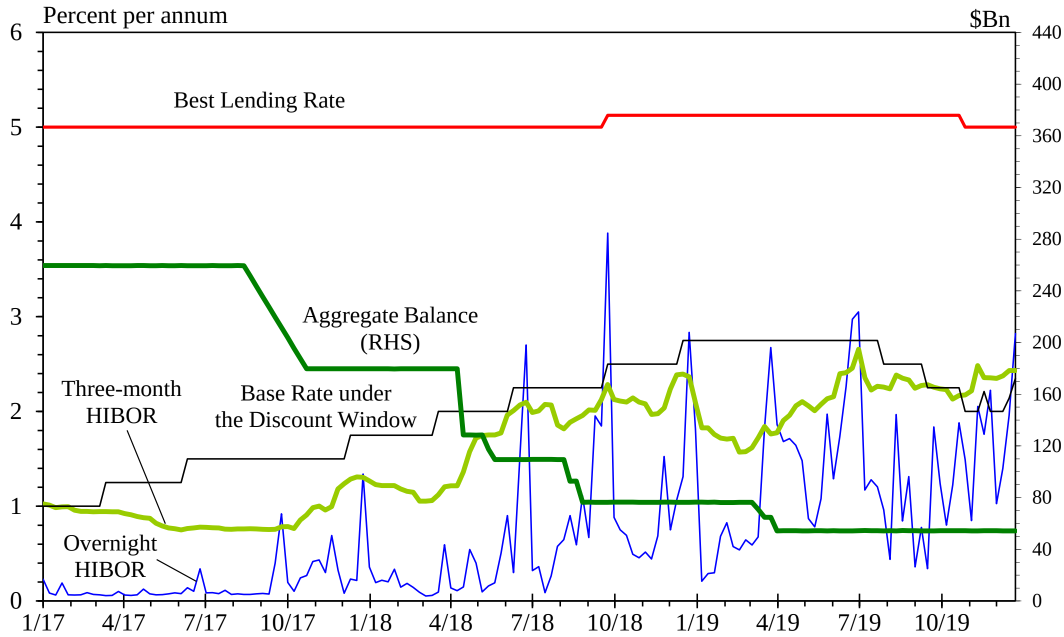
Diagram 5.1 : The Hong Kong dollar yield curve flattened, while the US dollar yield curve shifted downwards



Note : (*) With the HKMA stopping new issuance of Exchange Fund Notes of tenors of 3 years or above since January 2015, the Hong Kong dollar yields for tenor of 3 years and above refer to those for Hong Kong Government Bonds.

5.3 On the retail front, most major banks lowered their *Best Lending Rates* by 12.5 basis points following the rate cut in the US in late October. At end-2019, there were four Best Lending Rates in the market, at 5.000%, 5.250%, 5.375% and 5.500%. The *average savings deposit rate* and the one-year *time deposit rate* for deposits of less than $100,000 quoted by the major banks stayed low at 0.002% and 0.31% respectively at end-2019, though reportedly banks have raised the preferential deposit rates for selected customers. The *composite interest rate*[(2)], which indicates the average cost of funds for retail banks, rose further from 0.89% a year earlier to 1.09% at end-2019, partly reflecting the increase in preferential deposit rates.

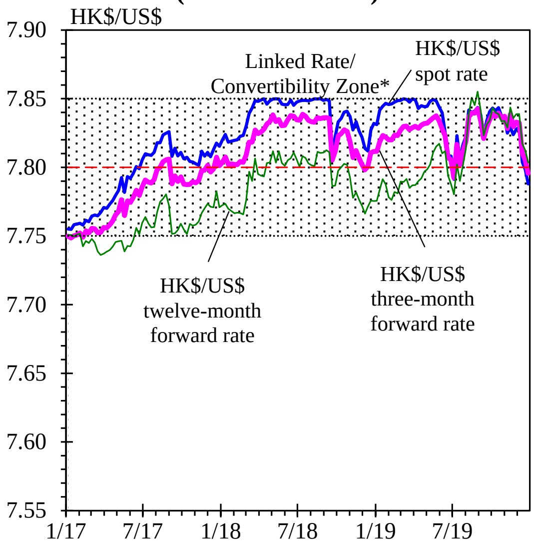
Diagram 5.2 : Most major banks lowered their Best Lending Rates in 2019, while interbank interest rates at short tenors rose (end for the week)



5.4 The *Hong Kong dollar spot exchange rate* weakened against the US dollar in early 2019, but stabilised in the third quarter and strengthened in the fourth quarter. Reflecting the weaker Hong Kong dollar against the US dollar in the first quarter, the weak-side Convertibility Undertaking was triggered eight times in March. In response, the HKMA purchased a total of $22.1 billion Hong Kong dollars, bringing the Aggregate Balance down from $76.4 billion at end-2018 to $54.3 billion at end-2019. Yet the Hong Kong dollar firmed up in late October and further so in the latter part of December, reflecting strong demand for funds related to IPOs and also tightened liquidity near year-end. The Hong Kong dollar spot exchange rate closed at 7.787 at end-2019, compared with 7.831 at end-2018. The 3-month *Hong Kong dollar forward rate* turned from a discount of 210 pips (each pip is equivalent to HK$0.0001) a year earlier to a premium of 51 pips at end-2019, and the 12-month forward rate turned from a discount of 565 pips to a premium of 135 pips.

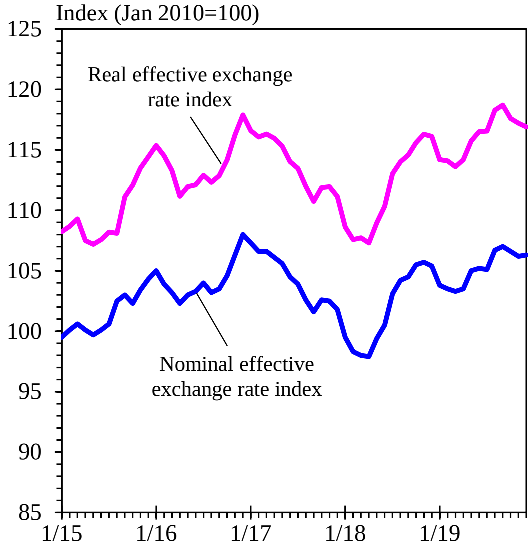
5.5 Under the Linked Exchange Rate System, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. As the US dollar strengthened against some major currencies including the euro and renminbi (RMB) during the year, the *trade-weighted Hong Kong dollar Nominal* and *Real Effective Exchange Rate Indices*[(3)] picked up by 0.9% and 0.7% respectively during 2019.

Diagram 5.3 : The Hong Kong dollar spot exchange rate weakened against the US dollar in early 2019, but stabilised in the third quarter and strengthened in the fourth quarter
(end for the week)



Note : (*) The shaded area represents the Convertibility Zone that was introduced in May 2005 as part of the three refinements to the Linked Exchange Rate System.

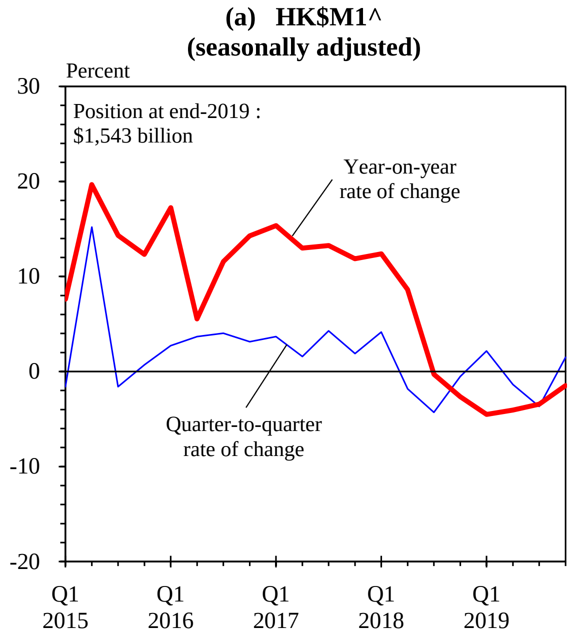
Diagram 5.4 : The trade-weighted nominal and real effective exchange rate indices picked up during 2019
(average for the month)

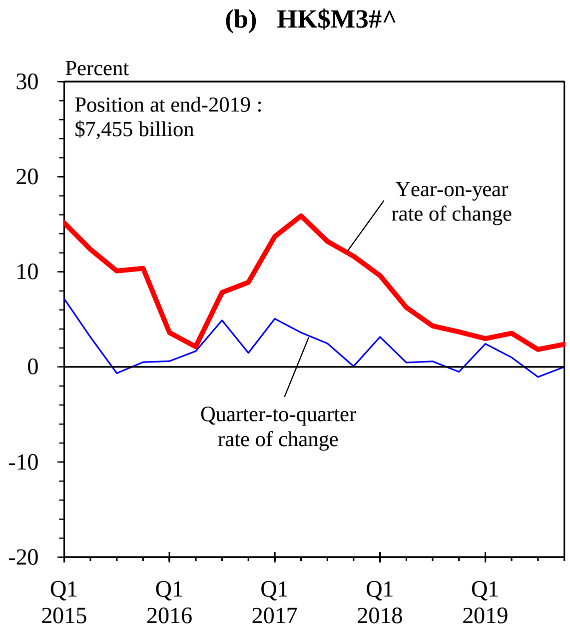


Money supply and banking sector

5.6 The Hong Kong dollar broad *money supply* (HK$M3) increased moderately by 2.3% over a year earlier to $7,455 billion(4) at end-2019, while the seasonally adjusted Hong Kong dollar narrow money supply (HK$M1) decreased by 1.5% to $1,543 billion. Meanwhile, *total deposits* with authorised institutions (AIs)(5) grew by 2.9% to $13,772 billion, within which Hong Kong dollar deposits and foreign currency deposits rose by 2.5% and 3.2% respectively.

Diagram 5.5 : The Hong Kong dollar broad money supply increased moderately, while the seasonally adjusted Hong Kong dollar narrow money supply decreased





Notes : (^) Figures refer to the positions at end of period.
(#) Adjusted to include foreign currency swap deposits.

Table 5.1 : Hong Kong dollar money supply and total money supply

% change during the quarter		M1 HK$^	M1 Total	M2 HK$(a)	M2 Total	M3 HK$(a)	M3 Total
2018	Q1	4.2	1.7	3.1	1.3	3.2	1.3
	Q2	-1.8	1.9	0.5	0.3	0.5	0.3
	Q3	-4.3	-3.0	0.5	1.0	0.6	1.0
	Q4	-0.5	-1.0	-0.5	1.6	-0.5	1.6
2019	Q1	2.2	-0.1	2.5	1.0	2.4	1.0
	Q2	-1.4	0.4	1.0	0.4	1.0	0.3
	Q3	-3.7	1.7	-1.0	-0.2	-1.1	-0.3
	Q4	1.5	0.6	*	1.6	*	1.6
Total amount at end-2019 ($Bn)		1,543	2,485	7,439	14,746	7,455	14,786
% change over a year earlier		-1.5	2.6	2.4	2.8	2.3	2.7

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

(*) Change of less than ±0.05%.

5.7 Despite the worsened economic environment in the second half of the year, *total loans and advances* registered a growth of 6.7% over a year earlier to $10,377 billion at end-2019. Within the total, Hong Kong dollar loans went up by 6.6% and foreign currency loans by 7.0%. Reflecting the corresponding movements in loans and deposits, the loan-to-deposit ratio for Hong Kong dollar rose further from 86.9% a year earlier to 90.3% at end-2019, and that for foreign currency from 58.3% to 60.4%.

5.8 Both loans for use in and outside Hong Kong sustained further growth in 2019. Specifically, loans for use in Hong Kong (including trade finance) rose by 7.1% over a year earlier to $7,259 billion at end-2019, and loans for use outside Hong Kong by 5.8% to $3,118 billion. Within the former, loans to various economic segments showed mixed performances. Amid the difficult external environment and weak retail businesses, loans to trade finance and loans to wholesale and retail trade fell by 0.7% and 3.1% respectively, while those to manufacturing also recorded a slower growth of 1.1%. Loans to stockbrokers declined by 4.9% amid the volatile local stock market, yet loans to financial concerns rose by another 5.9%. As for property-related lending, loans to building, construction, property development and investment picked up by 6.9%, and loans for purchase of residential property rose firmly by 10.3%.

Table 5.2 : Loans and advances

% change during the quarter		Loans to : Trade finance	Manu-facturing	Whole-sale and retail trade	Building, construction, property development and investment	Purchase of residential property[(a)]	Financial concerns	Stock-brokers	Total[(b)]	All loans and advances for use outside Hong Kong[(c)]	Total loans and advances
		All loans and advances for use in Hong Kong									
2018	Q1	5.7	3.3	4.9	2.8	1.9	6.1	3.7	3.6	3.7	3.6
	Q2	5.1	9.6	*	-2.3	2.3	3.4	15.6	1.7	1.4	1.6
	Q3	-8.2	-4.3	-3.4	2.4	2.5	-5.6	-31.0	-1.2	-0.9	-1.1
	Q4	-9.4	0.1	-0.7	1.9	2.0	2.4	-9.2	1.3	-2.1	0.3
2019	Q1	6.8	-1.5	-4.9	1.5	1.3	3.5	12.9	2.2	2.7	2.3
	Q2	3.2	3.3	3.4	1.6	3.4	-0.3	-12.6	2.3	0.8	1.8
	Q3	-1.9	-0.3	0.6	0.6	3.9	1.4	-0.7	1.9	1.4	1.7
	Q4	-8.2	-0.4	-2.1	3.1	1.4	1.3	-2.9	0.6	0.8	0.7
Total amount at end-2019 ($Bn)		453	303	378	1,632	1,513	908	63	7,259	3,118	10,377
% change over a year earlier		-0.7	1.1	-3.1	6.9	10.3	5.9	-4.9	7.1	5.8	6.7

Notes : Some loans have been reclassified. As such, the figures are not strictly comparable with those of previous quarters.

(a) Figures also include loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme, in addition to those for the purchase of private residential flats.

(b) Loans to individual sectors may not add up to all loans and advances for use in Hong Kong, as some sectors are not included.

(c) Also include loans where the place of use is not known.

(*) Change of less than ±0.05%.

5.9 The Hong Kong banking sector remained resilient. The Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying at a high level of 20.6% at end-September 2019. Asset quality of the local banking sector also stayed healthy. The ratio of classified loans to total loans for retail banks edged up from 0.51% at end-2018 to 0.52% at end-September 2019 and the delinquency ratio for credit card lending from 0.21% to 0.23%, yet they were low by historical standards. Meanwhile, the delinquency ratio for residential mortgage loans edged up from 0.02% at end-2018 to 0.03% at end-2019, again low by historical standards.

Table 5.3 : Asset quality of retail banks*

(as % of total loans)

At end of period		Pass loans	Special mention loans	Classified loans (gross)
2018	Q1	98.36	1.09	0.55
	Q2	98.41	1.06	0.53
	Q3	98.36	1.09	0.54
	Q4	98.28	1.21	0.51
2019	Q1	98.28	1.20	0.52
	Q2	98.26	1.20	0.54
	Q3	98.32	1.16	0.52

Notes : Due to rounding, figures may not add up to 100.

(*) Period-end figures relate to Hong Kong offices, overseas branches and major overseas subsidiaries. Loans and advances are classified into the following categories: Pass, Special Mention, Substandard, Doubtful and Loss. Loans in the substandard, doubtful and loss categories are collectively known as "classified loans".

5.10 *Offshore RMB business* expanded at a brisk pace in 2019. RMB trade settlement transactions handled by banks in Hong Kong surged by 27.8% over a year earlier to RMB5,376.3 billion. Meanwhile, total RMB deposits (including customer deposits and outstanding certificates of deposit) edged up by 0.1% over a year earlier to RMB658.0 billion at end-2019. On financing activities, RMB bond issuance totalled RMB34.4 billion in 2019 (excluding the issuance of RMB15.0 billion by the Ministry of Finance), 7.9% higher than in 2018. Outstanding RMB bank loans also jumped by 45.5% over end-2018 to RMB153.7 billion at end-2019.

Table 5.4 : Renminbi deposits and cross-border renminbi trade settlement in Hong Kong

At end of period		Demand and savings deposits (RMB Mn)	Time deposits (RMB Mn)	Total deposits (RMB Mn)	Interest rates on[a] Savings deposits[b] (%)	Interest rates on[a] Three-month time deposits[b] (%)	Number of AIs engaged in RMB business	Amount of cross-border RMB trade settlement[c] (RMB Mn)
2018	Q1	159,509	394,808	554,317	0.25	0.53	136	1,007,895
	Q2	167,016	417,505	584,521	0.25	0.53	137	1,013,743
	Q3	181,117	419,212	600,329	0.25	0.53	137	1,070,825
	Q4	194,432	420,585	615,017	0.25	0.53	136	1,113,741
2019	Q1	210,156	392,082	602,238	0.25	0.53	136	1,211,303
	Q2	214,540	389,697	604,236	0.25	0.53	136	1,338,610
	Q3	207,338	416,106	623,443	0.25	0.53	136	1,411,384
	Q4	223,985	408,222	632,207	0.25	0.53	138	1,414,999
% change over a year earlier		15.2	-2.9	2.8	N.A.	N.A.	N.A.	27.0

Notes : (a) The interest rates are based on a survey conducted by the HKMA.

(b) Period average figures.

(c) Figures during the period.

N.A. Not applicable.

The debt market

5.11 The Hong Kong dollar *debt market* expanded further in 2019 on the back of increased new issuance of Exchange Fund papers. Total gross issuance of Hong Kong dollar debt securities rose by 2.2% over a year earlier to $4,184.0 billion in 2019, with the increase of 5.0% in public sector debt issuance more than offsetting the decline of 8.5% in private sector debt issuance[(6)]. In parallel, the total outstanding amount of Hong Kong dollar debt securities rose by 2.2% to $2,165.9 billion at end-2019, equivalent to 29.1% of HK$M3 or 22.9% of Hong Kong dollar-denominated assets of the banking sector[(7)].

5.12 As to the Government Bond ("GB") Programme, a total of $17.4 billion worth of institutional GBs were issued through tenders in 2019. At end-2019, the total outstanding amount of Hong Kong dollar bonds under the GB Programme was $100.1 billion, comprising 13 institutional issues totaling $91.3 billion and three batches of Silver Bond totaling $8.8 billion. In addition, two US dollar sukuks, each with an issue size of US$1.0 billion, were outstanding under the GB Programme.

Table 5.5 : New issuance and outstanding value of Hong Kong dollar debt securities[a] ($Bn)

		Exchange Fund paper	Statutory bodies/government-owned corporations	Govern-ment	Public sector total	AIs[b]	Local corporations	Non-MDBs overseas borrowers[c]	Private sector total	MDBs[c]	Total
New Issuance											
2018	Annual	3,233.0	23.7	19.6	3,276.3	342.5	34.6	430.3	807.5	9.0	4,092.8
	Q1	791.9	8.6	1.8	802.3	105.3	8.5	176.6	290.4	5.6	1,098.4
	Q2	805.4	6.7	6.5	818.6	88.8	16.0	111.7	216.6	2.6	1,037.8
	Q3	811.5	5.4	1.8	818.7	74.2	4.6	80.5	159.2	0.2	978.1
	Q4	824.1	3.0	9.5	836.6	74.3	5.5	61.5	141.3	0.6	978.5
2019	Annual	3,394.0	24.6	20.4	3,439.0	323.2	39.4	376.2	738.7	6.3	4,184.0
	Q1	811.4	9.8	2.1	823.2	103.0	7.9	127.7	238.7	1.5	1,063.4
	Q2	826.6	10.8	8.0	845.4	75.8	19.8	90.2	185.7	3.1	1,034.2
	Q3	911.8	2.9	3.8	918.4	82.8	6.1	85.5	174.4	1.3	1,094.2
	Q4	844.2	1.2	6.5	851.9	61.6	5.6	72.8	139.9	0.4	992.2
% change in 2019 over 2018		5.0	3.7	4.1	5.0	-5.7	13.8	-12.6	-8.5	-30.4	2.2
Outstanding (at end of period)											
2018	Q1	1,050.6	57.3	99.7	1,207.6	257.2	101.6	392.4	751.3	15.5	1,974.3
	Q2	1,053.9	55.0	106.2	1,215.1	282.1	115.7	440.0	837.7	17.7	2,070.5
	Q3	1,058.0	57.6	97.9	1,213.5	290.1	115.2	439.9	845.2	17.5	2,076.2
	Q4	1,062.7	54.8	107.4	1,224.9	319.7	113.9	442.8	876.3	17.9	2,119.1
2019	Q1	1,066.5	58.4	96.2	1,221.1	337.1	107.7	470.9	915.7	17.6	2,154.4
	Q2	1,071.3	59.2	94.2	1,224.7	346.8	116.7	484.2	947.8	20.9	2,192.5
	Q3	1,076.8	57.1	93.7	1,227.5	339.2	116.8	466.2	922.1	21.1	2,170.7
	Q4	1,082.1	55.9	100.1	1,238.1	331.3	116.8	458.5	906.5	21.2	2,165.9
% change at end-2019 over end-2018		1.8	2.0	-6.7	1.1	3.6	2.6	3.5	3.5	18.4	2.2

Notes : Figures may not add up to the corresponding totals due to rounding and may be subject to revisions.

(a) The debt securities statistics are reclassified in accordance with the latest international statistical standards set forth in the *Handbook of Securities Statistics* published by the Bank for International Settlements, International Monetary Fund and European Central Bank. They may not be comparable with statistics previously published in this report. Historical statistics reclassified under the new standards are available upon request.

(b) AIs : Authorised institutions.

(c) MDBs : Multilateral Development Banks.

The stock and derivatives markets

5.13 The *local stock market* exhibited considerable volatility in 2019, as market sentiment swung along the abrupt changes in overseas and local situations. Bolstered by the rallies in major overseas stock markets, the Hang Seng Index (HSI) staged a strong rebound in the early part of the year to a high of 30 157 in early April. Yet the HSI pared most of the gains by early June due to concerns over the re-escalation of the US-Mainland trade tensions at that time, and traded within 25 281 to 28 876 during the rest of the year amid softening global economic growth, fluid US-Mainland trade relations, the local social incidents, and their impacts on local economic outlook. The HSI closed the year at 28 190, 9.1% higher than end-2018. Meanwhile, *market capitalisation* soared by 27.6% over a year earlier to a record high of $38.2 trillion at end-2019, partly reflecting the listing of a giant Mainland enterprise in November. The local stock market ranked the fifth largest in the world and the third largest in Asia(8).

5.14 Trading activities in the local stock market were active in early 2019 but quietened down over the course of the year. For the year as a whole, *average daily turnover* in the securities market plummeted by 18.9% to $87.2 billion. Within the total, the average daily trading value of derivative warrants and equities(9) plunged by 37.5% and 19.9% respectively, while that of unit trusts (including Exchange-Traded Funds) and callable bull/bear contracts increased by 13.0% and 8.6% respectively. As to futures and options(10), the average daily trading volume declined by 11.2%. Within the total, trading of stock options, HSI futures, Hang Seng China Enterprises Index futures and HSI options all fell, by 14.5%, 11.0%, 8.8% and 2.0% respectively.

Diagram 5.6 : The local stock market exhibited considerable volatility in 2019

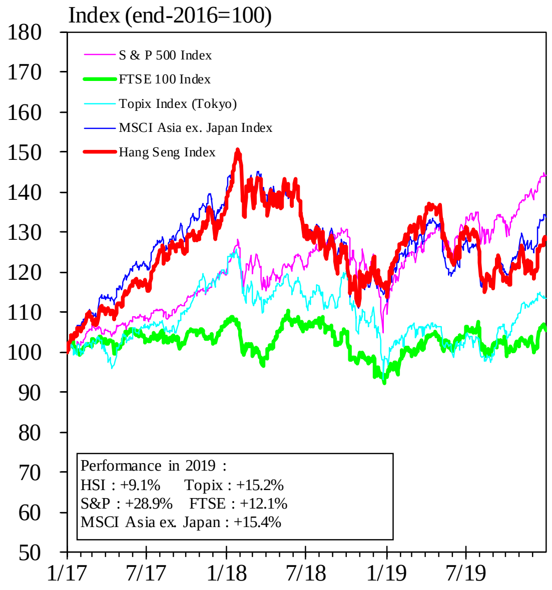
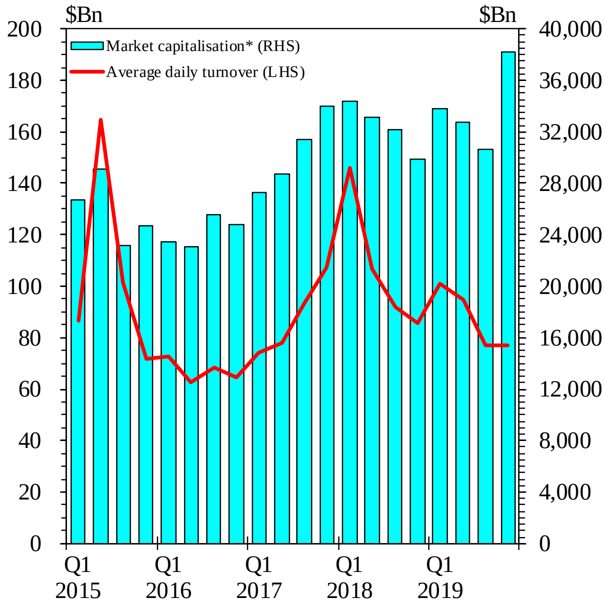


Diagram 5.7 : Market capitalisation reached a record high, while trading activities quietened down over the course of the year



Note : (*) Position at end of quarter.

Table 5.6 : Average daily turnover of futures and options of the Hong Kong market

		Hang Seng Index futures	Hang Seng Index options	Hang Seng China Enterprises Index futures	Stock options	Total futures and options traded*
2018	Annual	234 424	51 693	152 241	517 395	1 203 996
	Q1	205 103	58 873	151 890	665 446	1 342 268
	Q2	235 668	46 252	140 129	481 531	1 122 713
	Q3	235 121	46 949	150 507	456 615	1 128 977
	Q4	261 361	54 716	166 070	468 198	1 222 845
2019	Annual	208 609	50 678	138 826	442 333	1 068 641
	Q1	222 008	49 636	148 193	528 062	1 187 529
	Q2	234 927	52 802	150 770	488 012	1 172 684
	Q3	201 554	55 351	130 513	382 998	990 111
	Q4	177 992	44 767	127 108	378 106	936 911
% change in 2019 Q4 over 2018 Q4		-31.9	-18.2	-23.5	-19.2	-23.4
% change in 2019 over 2018		-11.0	-2.0	-8.8	-14.5	-11.2

Note : (*) Turnover figures for individual futures and options are in number of contracts, and may not add up to the total futures and options traded as some products are not included.

5.15 Fund raising activities were lacklustre during most of 2019, though the IPOs of two large companies rendered strong support in the latter part of the year. For the year as a whole, *total equity capital raised*, comprising new share floatation and post-listing arrangements on the Main Board and GEM[(11)], shrank by 16.9% to $452.0 billion. Nonetheless, within the total, the amount of funds raised through IPOs rose by 8.6% to $312.9 billion, mainly reflecting two major listings in September and November respectively. Hong Kong continued to rank first globally in terms of the amount of funds raised through IPOs in 2019.

5.16 Mainland enterprises continued to play an important role in the Hong Kong stock market. At end-2019, a total of 1 241 Mainland enterprises (including 284 H-share companies, 173 "Red Chip" companies and 784 private enterprises) were listed on the Main Board and GEM, accounting for 51% of the total number of listed companies and 73% of total market capitalisation. Mainland-related stocks accounted for 79% of equity turnover and 79% of total equity fund raised in the Hong Kong stock exchange in 2019.

5.17 In October, the Government and the Securities and Futures Commission (SFC) gazetted the enhancements to the Investor Compensation Regime to strengthen investor protection in the securities and futures markets in Hong Kong. Specifically, the enhancements include a higher compensation limit per investor per default, higher trigger levels for suspending and reinstating the Investor Compensation Fund levies, and expansion of the Regime to cover trading on the northbound links of the Stock Connect. These enhancements have already come into operation on 1 January 2020.

Fund management and investment funds

5.18 Notwithstanding the volatile local stock market, the performance of the fund management business[(12)] was resilient in 2019. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*[(13)] rose by 19.2% over a year earlier to $969.5 billion at end-2019. Meanwhile, gross retail sales of *mutual funds* went up by 3.0% to US$89.9 billion in 2019[(14)].

5.19 In December, the SFC launched a two-month consultation on the proposal to enhance the open-ended fund companies (OFC) regime. The proposed enhancements include allowing licensed or registered securities brokers to act as custodians for private OFCs, expanding the investment scope for private OFCs, introducing a statutory mechanism for the re-domiciliation of overseas corporate funds to Hong Kong, and requiring OFCs to keep a register of beneficial shareholders. These enhancements would help attract more private funds to set up in Hong Kong, and contribute to the further development of Hong Kong as an international asset management centre and preferred fund domicile.

Insurance sector

5.20 The *insurance sector*[15] showed further expansion in the third quarter of 2019. Gross premium income from long-term business rose by 7.9% over a year earlier. Within the total, premium income from non-investment linked plans (which accounted for 93% of total premium for this segment) went up by 14.4% following the implementation of tax deductions for qualifying deferred annuity premiums in April, while that from investment linked plans plunged by 38.8%. As to general business, gross and net premium rose by 9.6% and 7.2% respectively.

Table 5.7 : Insurance business in Hong Kong* ($Mn)

	General business			Premium for long-term business^					
	Gross premium	Net premium	Underwriting profit	Individual life and annuity (non-linked)	Individual life and annuity (linked)	Other individual business	Non-retirement scheme group business	All long-term business	Gross premium from long-term business and general business
2018 Annual	53,555	35,262	583	144,091	17,410	274	422	162,197	215,752
Q1	15,495	10,569	-166	39,783	4,252	63	132	44,230	59,725
Q2	12,401	8,740	472	35,232	4,490	76	75	39,873	52,274
Q3	12,624	8,713	-219	32,342	4,440	70	129	36,981	49,605
Q4	13,035	7,240	496	36,734	4,228	65	86	41,113	54,148
2019 Q1	16,587	11,378	44	45,601	2,646	50	81	48,378	64,965
Q2	13,939	9,575	388	48,191	3,169	53	79	51,492	65,431
Q3	13,838	9,341	424	36,987	2,717	43	162	39,909	53,747
% change in 2019 Q3 over 2018 Q3	9.6	7.2	N.A.	14.4	-38.8	-38.6	25.6	7.9	8.3

Notes : (*) Figures are based on provisional statistics of the Hong Kong insurance industry.

(^) Figures refer to new business only. Retirement scheme business is excluded.

N.A. Not applicable.

Notes :

(1) Prior to 9 October 2008, the Base Rate was set at either 150 basis points above the prevailing US Federal Funds Target Rate (FFTR) or the average of the five-day moving averages of the overnight and one-month HIBORs, whichever was higher. Between 9 October 2008 and 31 March 2009, this formula for determination of the Base Rate was temporarily changed by reducing the spread of 150 basis points above the prevailing FFTR to 50 basis points and by removing the other leg relating to the moving averages of the relevant interbank interest rates. After a review of the appropriateness of the new Base Rate formula, the narrower 50 basis point spread over the FFTR was retained while the HIBOR leg was re-instated in the calculation of the Base Rate after 31 March 2009.

(2) In December 2005, the HKMA published a new data series on composite interest rate, reflecting movements in various deposit rates, interbank and other interest rates to closely track the average cost of funds for banks. The published data enable the banks to keep track of changes in funding cost and thus help improve interest rate risk management in the banking sector. Since June 2019, the composite interest rate has been calculated based on the new local "Interest rate risk in the banking book" framework. As such, the figures are not strictly comparable with those of previous months.

(3) The trade-weighted Nominal Effective Exchange Rate Index (EERI) is an indicator of the overall exchange value of the Hong Kong dollar against a fixed basket of other currencies. Specifically, it is a weighted average of the exchange rates of the Hong Kong dollar against some 15 currencies of its major trading partners, with the weights adopted being the respective shares of these trading partners in the total value of merchandise trade for Hong Kong during 2009 and 2010.

The Real EERI of the Hong Kong dollar is obtained by adjusting the Nominal EERI for relative movements in the seasonally adjusted consumer price indices of the respective trading partners.

(4) The various definitions of the money supply are as follows:

M1 : Notes and coins with the public, plus customers' demand deposits with licensed banks.

M2 : M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit (NCDs) issued by licensed banks and held outside the monetary sector, as well as short-term Exchange Fund placements of less than one month.

M3 : M2 plus customers' deposits with restricted licence banks and deposit-taking companies, plus NCDs issued by such institutions and held outside the monetary sector.

Among the various monetary aggregates, more apparent seasonal patterns are found in HK$M1, currency held by the public, and demand deposits. As monthly monetary statistics are subject to volatilities due to a wide range of transient factors, such as seasonal and IPO-related funding demand as well as business and investment-related activities, caution is required when interpreting the statistics.

(5) AIs include licensed banks, restricted licence banks and deposit-taking companies. At end-2019, there were 164 licensed banks, 17 restricted licence banks and 13 deposit-taking companies in Hong Kong. Altogether, 194 AIs (excluding representative offices) from 31 countries and territories (including Hong Kong) had a presence in Hong Kong.

(6) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.

(7) Assets of the banking sector include notes and coins, amount due from AIs in Hong Kong as well as from banks abroad, loans and advances to customers, NCDs held, negotiable debt instruments other than NCDs held, and other assets. Certificates of indebtedness issued by Exchange Fund and the counterpart bank notes issued are nevertheless excluded.

(8) The ranking is based on the figures compiled by the World Federation of Exchanges and the London Stock Exchange Group.

(9) Given the relatively small share (less than 0.5% of the daily turnover in the securities market), trading of debt securities and its movements were not analysed.

(10) At end-2019, there were 96 classes of stock options contracts and 80 classes of stock futures contracts.

(11) At end-2019, there were 2 071 and 378 companies listed on the Main Board and GEM respectively.

(12) After the de-authorisation of the remaining retail hedge fund in the second quarter of 2018, there was no SFC-authorised retail hedge fund at end-2019.

(13) At end-2019, there were 15 approved trustees. On MPF products, 27 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 441 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 290 000 employers, 2.63 million employees and 216 000 self-employed persons have participated in MPF schemes.

(14) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorised funds that have responded to the survey. At end-2019, the survey covered a total of 1 326 active authorised funds.

(15) At end-2019, there were 163 authorised insurers in Hong Kong. Within this total, 51 were engaged in long-term insurance business, 91 in general insurance business, and 21 in composite insurance business. These authorised insurers come from 22 countries and territories (including Hong Kong).

CHAPTER 6 : THE LABOUR SECTOR

Summary

- *The labour market was increasingly under pressure during 2019, especially in the second half when economic conditions deteriorated abruptly. The seasonally adjusted unemployment rate went up from a low of 2.8% in the second quarter to 3.3% in the fourth quarter, with those for the consumption- and tourism-related sectors showing more visible increases. The underemployment rate also edged up to 1.2% in the fourth quarter, after staying at a low of 1.0% in the previous three quarters. For 2019 as a whole, the unemployment rate averaged 3.0%, up 0.2 percentage point from 2018, while the underemployment rate averaged 1.1%, the same as in the preceding year. The threat of the novel coronavirus infection will exert even greater pressures on the labour market in the near term.*

- *Having showed some signs of easing in the first half of 2019, labour demand deteriorated further in September. Employment saw an enlarged year-on-year decline in September after falling for the first time in close to a decade in June, and the number of vacancies continued to plunge. The slackening in labour demand was particularly notable in sectors such as retail, accommodation and food services, import/export trade and wholesale, and construction.*

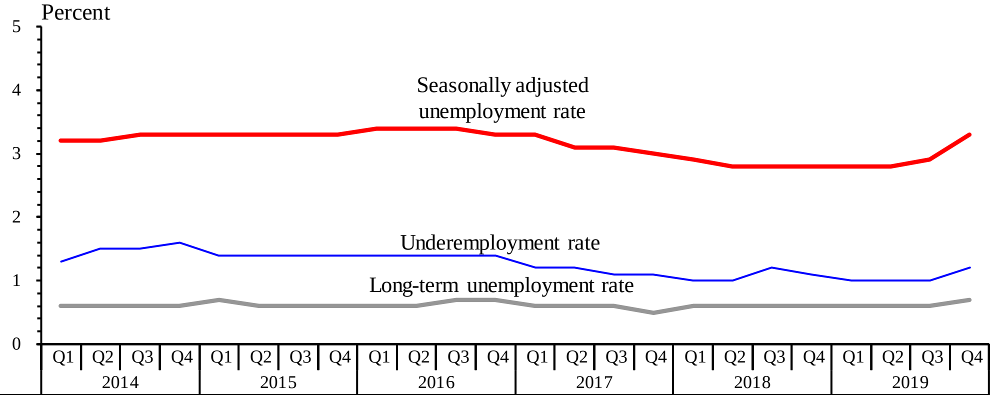
- *Nominal wages and earnings stayed on the rise in the first three quarters of 2019, but the pace of increase decelerated somewhat in the third quarter as economic conditions worsened. Earnings of low-income workers continued to increase throughout 2019, but household incomes weakened in the second half of the year.*

Overall labour market situation(1)

6.1 The labour market was increasingly under pressure during 2019. Having stayed at a low level of 2.8% in the first two quarters, the seasonally adjusted *unemployment rate*(2) went up successively to 2.9% in the third quarter and 3.3% in the fourth quarter when the economy fell into recession. The unemployment rates of the retail, accommodation and food services sectors saw more visible increases, particularly in the second half of the year as business was hit hard by the local social incidents involving violence. The *underemployment rate*(3) also edged up in the fourth quarter after staying low in the first three quarters, mainly driven by the visible increases in the underemployment rates of the construction sector and the food and beverage service activities sector.

According to data collected from private sector establishments, labour demand showed some signs of easing in the first half of 2019, and the situation deteriorated further in September as employment showed an enlarged decline and the number of vacancies continued to plunge. Nominal wages and earnings stayed on the rise in the first three quarters of 2019, but the pace of increase decelerated somewhat in the third quarter as economic conditions worsened. Earnings of low-income workers continued to increase throughout 2019, but household incomes weakened in the second half of the year. The threat of the novel coronavirus infection will exert even greater pressures on the labour market in the near term.

Diagram 6.1 : The labour market was increasingly under pressure during 2019, with the seasonally adjusted unemployment rate increasing successively in the second half



	2014 Q1	Q2	Q3	Q4	2015 Q1	Q2	Q3	Q4	2016 Q1	Q2	Q3	Q4	2017 Q1	Q2	Q3	Q4	2018 Q1	Q2	Q3	Q4	2019 Q1	Q2	Q3	Q4
Seasonally adjusted unemployment rate	3.2	3.2	3.3	3.3	3.3	3.3	3.3	3.3	3.4	3.4	3.4	3.3	3.3	3.1	3.1	3.0	2.9	2.8	2.8	2.8	2.8	2.8	2.9	3.3
Underemployment rate	1.3	1.5	1.5	1.6	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.2	1.2	1.1	1.1	1.0	1.0	1.2	1.1	1.0	1.0	1.0	1.2
Long-term unemployment rate	0.6	0.6	0.6	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.6	0.6	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.7
Annual unemployment rate	3.3				3.3				3.4				3.1				2.8				3.0#			
Annual underemployment rate	1.5				1.4				1.4				1.2				1.1				1.1#			

Note : # Provisional figures.

Labour force and total employment

6.2 While the working-age population (i.e. land-based non-institutional population aged 15 and above) increased by 0.8% in 2019, the *labour force*(4) declined slightly by 0.3% to 3 968 300 due to a fall in the labour force participation rate from 61.2% in 2018 to 60.5%. While the lower labour force participation rate was partly due to population ageing, it may also be a response to the worsened economic situation.

6.3 *Total employment*(5) decreased by 0.4% to 3 851 100 in 2019, in contrast to the growth of 1.1% in 2018. On the quarterly profile, after a marginal year-on-year decline of 0.1% and a modest increase of 0.4% in the first and second quarters respectively, total employment relapsed to decrease by 0.3% in the third quarter as economic conditions deteriorated abruptly. The decline widened visibly to 1.3% in the fourth quarter. Analysed by sector, employment of the retail, and food and beverage service activities sectors declined noticeably in 2019 amid weak business performance. The declines in the second half of the year were particularly sharp due to the additional blow to business by the local social incidents. Employment of the import/export trade and wholesale sector fell at a double-digit rate in 2019 amid shrinking trade flows. Employment of the construction sector also decreased visibly due to falling construction activities.

Table 6.1 : The labour force, and persons employed, unemployed and underemployed

		Labour force		Persons employed		Persons unemployed[a]	Persons underemployed
2018	Annual	3 979 000	(0.8)	3 867 000	(1.1)	112 000	43 200
	Q1	3 975 400	(1.1)	3 863 900	(1.5)	111 600	38 800
	Q2	3 969 400	(1.0)	3 856 900	(1.4)	112 500	41 400
	Q3	3 985 100	(1.0)	3 867 000	(1.3)	118 100	47 400
	Q4	3 973 400	(0.6)	3 867 700	(0.7)	105 700	44 500
2019	Annual#	3 968 300	(-0.3)	3 851 100	(-0.4)	117 200	42 200
	Q1	3 970 800	(-0.1)	3 860 400	(-0.1)	110 400	38 900
	Q2	3 985 000	(0.4)	3 870 700	(0.4)	114 300	41 200
	Q3	3 975 700	(-0.2)	3 855 400	(-0.3)	120 300	41 500
	Q4	3 941 800	(-0.8)	3 817 800	(-1.3)	124 000	47 400
			<-0.5>		<-1.0>		

Notes : (a) These include first-time job-seekers and re-entrants into the labour force.
( ) % change over a year earlier.
< > Seasonally adjusted quarter-to-quarter % change for the fourth quarter of 2019.
\# Provisional figures.

Source : General Household Survey, Census and Statistics Department.

Diagram 6.2 : Both labour force and total employment declined in 2019

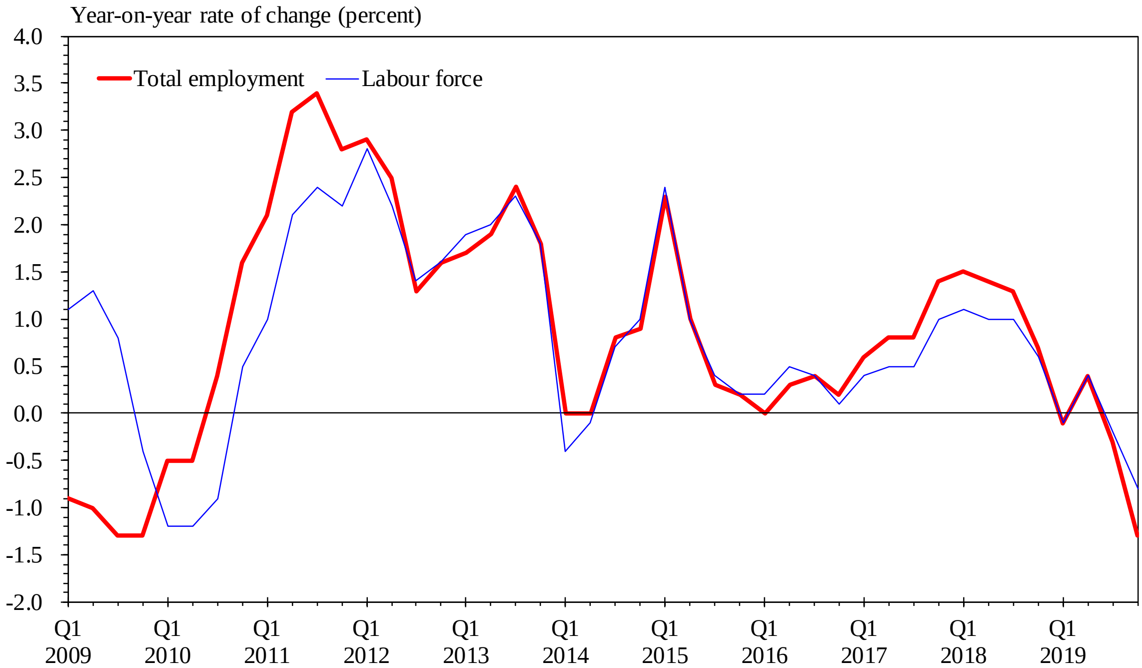


Table 6.2 : Labour force participation rates by gender and by age group

(%)

	2014	2015	2016	2017	2018	2019#
Male						
15-24	37.8	39.1	39.5	38.1	39.2	39.6
of which:						
15-19	*11.1*	*11.7*	*12.9*	*9.9*	*10.4*	*11.6*
20-24	*61.4*	*62.0*	*60.7*	*59.2*	*60.2*	*60.0*
25-29	93.4	93.7	92.9	92.6	92.9	91.3
30-39	96.5	96.5	96.4	96.6	96.4	95.8
40-49	94.7	95.1	95.0	95.2	95.1	93.9
50-59	86.7	86.6	86.0	86.7	86.9	85.0
≥ 60	28.0	28.5	29.9	30.4	32.1	31.6
Overall	68.8	68.8	68.6	68.3	68.5	67.3
Female						
15-24	39.3	41.4	41.9	41.5	41.1	40.7
of which:						
15-19	*12.5*	*12.8*	*12.3*	*11.8*	*12.0*	*11.9*
20-24	*61.4*	*63.6*	*63.6*	*61.8*	*60.4*	*60.2*
25-29	86.3	85.7	86.2	86.5	86.6	86.9
30-39	78.9	78.4	78.0	79.0	79.3	79.0
40-49	73.0	73.7	73.4	73.8	74.1	73.6
50-59	57.2	58.3	59.7	60.4	61.5	62.0
≥ 60	10.7	11.4	12.3	13.7	14.5	15.6
Overall	54.5	54.7	54.8	55.1	55.1	55.0
Both genders combined						
15-24	38.5	40.2	40.7	39.8	40.2	40.2
of which:						
15-19	*11.8*	*12.3*	*12.6*	*10.8*	*11.2*	*11.8*
20-24	*61.4*	*62.8*	*62.2*	*60.5*	*60.3*	*60.1*
25-29	89.4	89.2	89.2	89.3	89.5	88.9
30-39	86.0	85.7	85.4	86.0	86.1	85.7
40-49	82.3	82.7	82.4	82.6	82.7	81.9
50-59	71.4	71.8	72.2	72.7	73.2	72.5
≥ 60	19.0	19.6	20.7	21.7	22.9	23.2
Overall	61.1	61.1	61.1	61.1	61.2	60.5

Note : # Provisional figures.

Source : General Household Survey, Census and Statistics Department.

Profile of unemployment

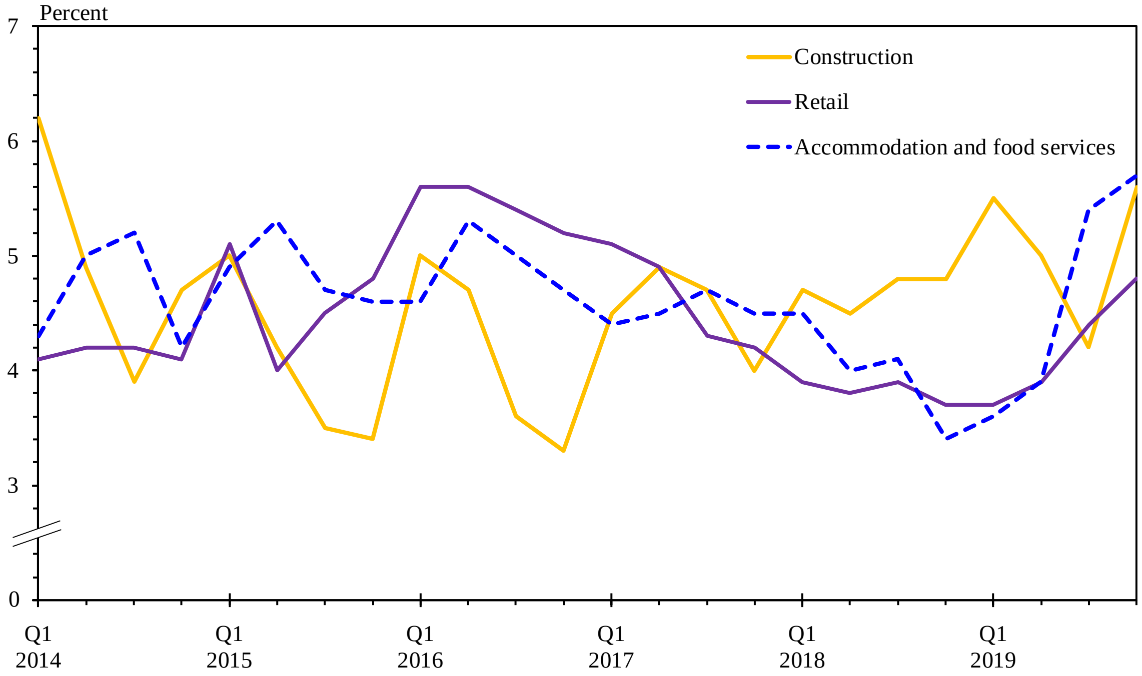
6.4 The unemployment situation remained largely stable in the first half of 2019, with the seasonally adjusted unemployment rate staying at a low level of 2.8% in the first two quarters. However, the situation deteriorated in the second half as the economy fell into recession. The seasonally adjusted unemployment rate inched up to 2.9% in the third quarter and rose further to 3.3% in the fourth quarter. For 2019 as a whole, the annual unemployment rate increased by 0.2 percentage point to 3.0%, and the average number of unemployed persons increased by 5 200 to 117 200.

6.5 Comparing 2019 with 2018, most of the major sectors recorded increases in unemployment rate. The unemployment rate of the retail, accommodation and food services sectors combined went up by 0.5 percentage point to an average of 4.4% in 2019, with the increases particularly visible in the second half of the year. It rose to a three-year high of 5.2% in the fourth quarter, as the local social incidents involving violence dealt a heavy blow to consumption- and tourism-related sectors (see ***Box 6.1*** for details). The unemployment rate of the construction sector also increased by 0.5 percentage point to 5.1% in 2019 due to falling construction activities. While the unemployment rate of the import/export trade and wholesale sector only edged up by 0.1 percentage point to 2.4% in 2019, employment of the sector decreased noticeably by 12.4% amid shrinking trade flows. For the *low-paying sectors*[6] as a whole, the unemployment rate increased slightly by 0.1 percentage point to 2.7% in 2019.

6.6 In terms of skill segment, the annual unemployment rates of the higher-skilled and lower-skilled workers increased by 0.3 and 0.1 percentage point to 1.9% and 3.1% respectively in 2019. Analysed by age, increases in unemployment rate were witnessed across many age groups, visibly for those aged 60 and over.

6.7 Comparing the latest situation in the fourth quarter of 2019 with a year earlier, most sectors registered increases in unemployment rate (not seasonally adjusted), with noticeable increases in the decoration, repair and maintenance for buildings (up 4.2 percentage points to 8.6%), food and beverage service activities (up 2.3 percentage points to 6.1%), accommodation services (up 1.8 percentage points to 3.4%) and retail (up 1.1 percentage points to 4.8%) sectors. Analysed by skill segment, unemployment rates of higher-skilled and lower-skilled workers both went up, by 0.4 and 0.5 percentage point to 1.9% and 3.3% respectively. Analysed by age, sizable increases in unemployment rate were seen among persons aged 15-24 (up 1.9 percentage points to 9.5%) and 60 and over (up 0.8 percentage point to 2.7%). As for educational attainment, visible increases in unemployment rate were seen for those with primary and below education (up 1.0 percentage point to 3.8%) and post-secondary education (up 0.7 percentage point to 3.1%).

Diagram 6.3 : Increases in unemployment rate were observed across most major sectors in 2019, particularly notable in the consumption- and tourism-related sectors in the second half



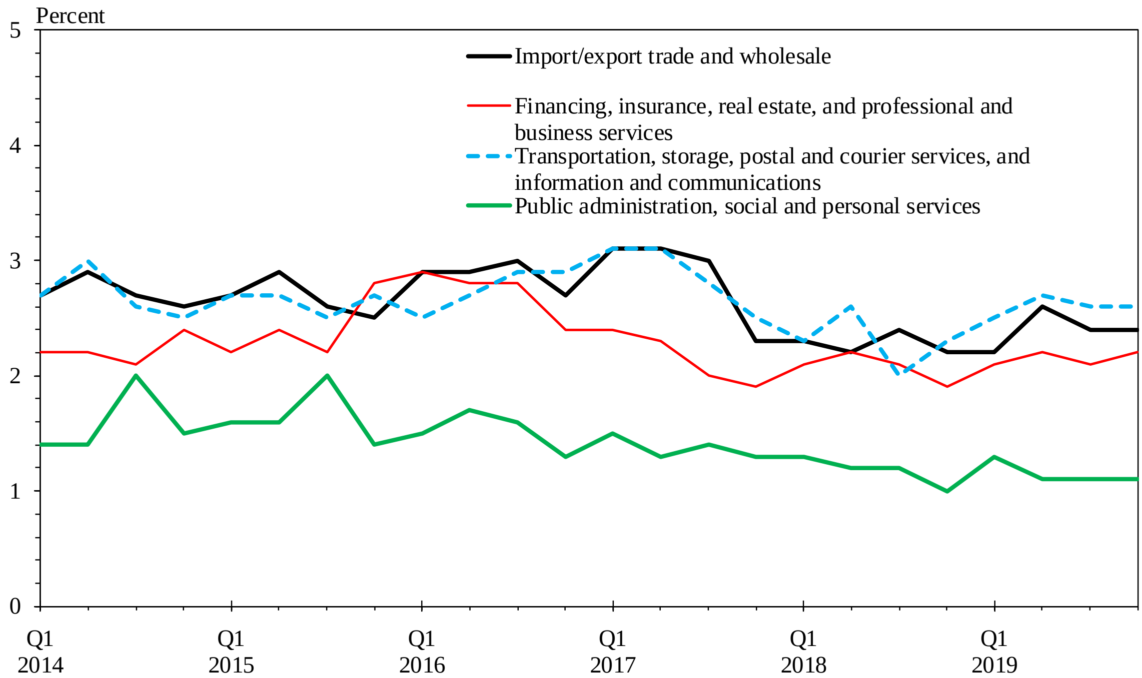


Table 6.3 : Unemployment rates by major economic sector

	2018					2019				
	Annual	Q1	Q2	Q3	Q4	Annual#	Q1	Q2	Q3	Q4
Import/export trade and wholesale	2.3	2.3	2.2	2.4	2.2	2.4	2.2	2.6	2.4	2.4
Retail	3.8	3.9	3.8	3.9	3.7	4.2	3.7	3.9	4.4	4.8
Accommodation and food services	4.1	4.5	4.0	4.1	3.4	4.6	3.6	3.9	5.4	5.7
Transportation, storage, postal and courier services	2.3	2.3	2.6	2.0	2.3	2.4	2.4	2.4	2.3	2.3
Information and communications	2.3	2.3	2.7	2.0	2.3	3.2	2.7	3.5	3.2	3.3
Financing and insurance	1.6	1.6	1.7	1.6	1.7	1.8	1.7	1.9	1.8	1.7
Real estate	2.1	2.3	2.2	2.3	1.6	1.9	2.0	1.9	1.9	1.8
Professional and business services	2.4	2.4	2.6	2.4	2.1	2.5	2.5	2.6	2.5	2.6
Public administration, social and personal services	1.2	1.3	1.2	1.2	1.0	1.2	1.3	1.1	1.1	1.1
Manufacturing	3.4	3.2	3.0	3.8	3.3	3.2	3.1	2.9	3.5	3.3
Construction	4.6	4.7	4.5	4.8	4.8	5.1	5.5	5.0	4.2	5.6
Overall*	2.8	2.8 (2.9)	2.8 (2.8)	3.0 (2.8)	2.7 (2.8)	3.0	2.8 (2.8)	2.9 (2.8)	3.0 (2.9)	3.1 (3.3)

Notes : * Including first-time job-seekers and re-entrants into the labour force.

( ) Seasonally adjusted unemployment figures.

Provisional figures.

Source : General Household Survey, Census and Statistics Department.

Box 6.1

The latest employment situations of the consumption- and tourism-related sectors (an update)

The local social incidents involving violence hit the consumption- and tourism-related sectors (such as retail, accommodation and food services sectors)[(1)] hard in the second half of 2019. Business in these sectors slumped as consumption by local residents fell and inbound tourism[(2)] faltered. Visitor arrivals declined sharply by 26% year-on-year in the third quarter and showed an even steeper plunge of 50% in the fourth quarter, while per capita visitor spending continued to weaken. Amid the austere business conditions, the unemployment rate[(3)] of the retail, accommodation and food services sectors combined rose from 3.9% in the second quarter to 5.2% in the fourth quarter, the highest in three years. This box article reviews the latest employment situations of these three sectors[(4)] and serves as an update to ***Box 5.1*** in the ***Third Quarter Economic Report 2019***.

Retail

Retail sales experienced a sharp decline in the second half of 2019. The fall in retail sales volume widened from the already sizable 20% in the third quarter to 24% in the fourth quarter, the largest decline for a single quarter on record (***Chart 1a***) (see ***Box 1.1*** for details on the recent retail sales performance). The labour market conditions of the retail sector worsened in tandem. According to the Quarterly Survey of Employment and Vacancies (SEV), employment in the sector showed an enlarged year-on-year decline of 2.2% in September (***Chart 1b***), and the number of vacancies fell markedly by 25.5%. The unemployment rate of the retail sector rose from 3.9% in the second quarter to 4.8% in the fourth quarter, the highest in more than two years. There will be more job losses in the sector in the period ahead if the austere business situation continues.

Chart 1a: Retail sales experienced a record decline in the second half of 2019

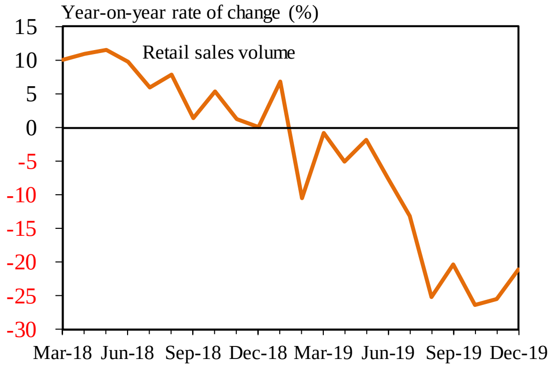
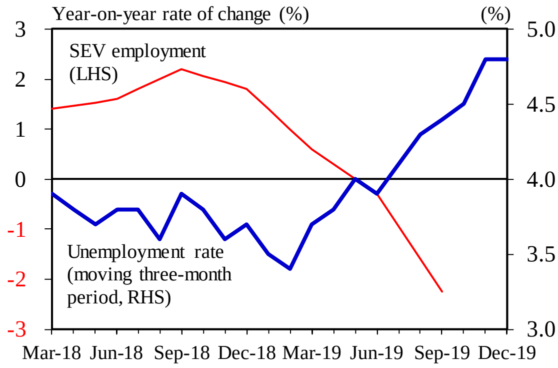


Chart 1b: Unemployment rate of the retail sector rose to the highest in more than two years



Sources: SEV, General Household Survey (GHS), and Monthly Survey of Retail Sales, Census and Statistics Department (C&SD).

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(1) Other sectors such as transportation, travel agencies, and import/export trade and wholesale were also directly or indirectly hit by varying degrees due to the local social incidents.

(2) Inbound tourism directly contributed 31%, 21% and 83% respectively to the value-added of the retail, food and beverage services, and accommodation services sectors in 2018, or 37% to the combined value-added of these sectors.

(3) All sectoral unemployment rates cited in this article are ***not*** seasonally adjusted. Hence, when interpreting the comparisons over time in this article, it should be noted that they are subject to the effect of seasonality.

(4) The three sectors combined contributed to around 15% of total employment.

Box 6.1 (Cont'd)

Food and beverage services[5]

Likewise, business in the food and beverage services sector fell sharply in the second half of 2019. Business receipts[6] plummeted in volume terms by 14% and 16% year-on-year in the third and fourth quarters respectively (***Chart 2a***). Only in the second quarter of 2003 during the SARS episode did the sector's business receipts show a larger decline of 18% in a single quarter. As a result of the fall-off in business, employment in the sector switched to a year-on-year decline of 4.9% in September (***Chart 2b***) and the number of vacancies plunged by 57.3% according to the SEV data. The unemployment rate of the sector surged from 4.3% in the second quarter to 6.2% in September – November, the highest in more than eight years. Although the unemployment rate then eased slightly to 6.1% in the fourth quarter, the underemployment rate of the sector went up to 2.3%, 0.6 percentage point higher than that in September – November and 1.2 percentage points higher than that in the second quarter. Feedback from the industry suggests that there may be even more closures and lay-offs in the near term as the operating environment has been difficult.

Chart 2a: Business receipts of the food and beverage services sector plummeted in the second half of 2019

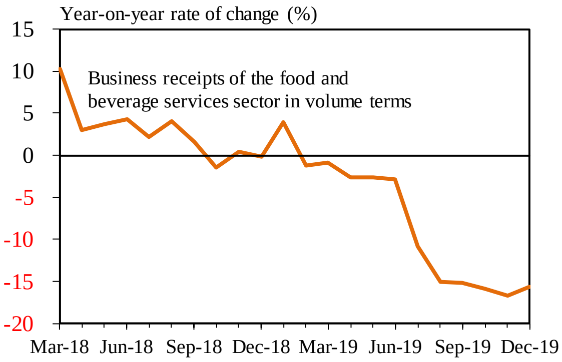
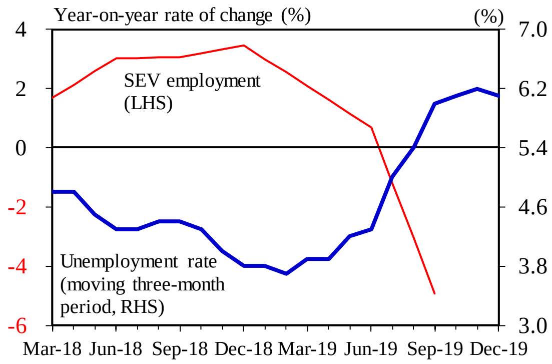


Chart 2b: Unemployment rate of the food and beverage services sector rose to the highest in more than eight years in late 2019



Sources: SEV, GHS, and Quarterly Survey of Restaurant Receipts and Purchases, C&SD.

(5) "Food and beverage services" sector is a sub-set of the "retail, accommodation and food services" sectors.

(6) Based on the Quarterly Survey of Restaurant Receipts and Purchases which has the same industry coverage as "food and beverage services" in GHS.

Box 6.1 (Cont'd)

Accommodation services

The accommodation services sector was also hard hit in the second half of 2019 as overnight visitor arrivals dived. Its business receipts fell markedly in value terms by 19% in the third quarter and probably even more in the fourth quarter (***Chart 3a***). The average hotel room occupancy rate fell to 72% in the third quarter and further to 65% in the fourth quarter, sharply lower than the average of 92% in the second half of 2018. The average hotel room rate also fell notably by 16% year-on-year in the third quarter, followed by an even sharper decline of 30% in the fourth quarter. Reflecting the softening labour demand, according to the SEV data, employment in the sector switched from the notable year-on-year growth in early 2019 to virtually no change in September (***Chart 3b***), and the number of vacancies plunged by 50.4%. The unemployment rate of the sector rose noticeably from 2.4% in the second quarter to 3.4% in the fourth quarter. The employment situation in the sector will be under great pressure in the near term as inbound tourism has been severely affected by the development of the novel coronavirus infection.

Chart 3a: Hotel business receipts fell markedly in the third quarter of 2019, and probably deteriorated further in the fourth quarter

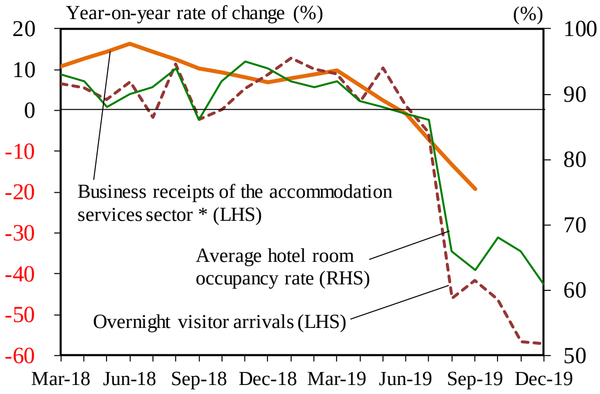
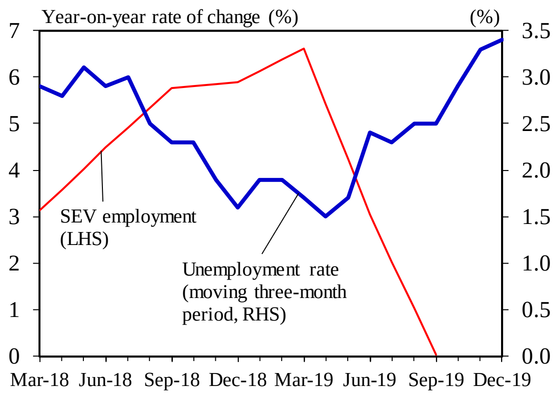


Chart 3b: Unemployment rate of the accommodation services sector rose noticeably to 3.4% in the fourth quarter



Note: (*) Business receipts are based on quarterly figures.

Sources: SEV, GHS, and Quarterly Survey of Service Industries, C&SD; Hong Kong Tourism Board.

Remarks

The prolonged local social unrest involving violence hit the consumption- and tourism-related sectors hard in the second half of 2019, and the impacts on the labour market have been increasingly felt. Recently, these sectors has been facing an even more difficult business environment due to the threat of the novel coronavirus infection. The employment situation in these sectors will thus face even more pressure in the near term. This would hurt the job and income prospects for the workers concerned, and most of them are lower-skilled(7). The Government will stay vigilant to the developments closely.

(7) Around 80% of the workers engaged in the retail, accommodation and food services sectors combined are lower-skilled.

Diagram 6.4 : The unemployment rates of lower-skilled and higher-skilled workers both went higher in 2019

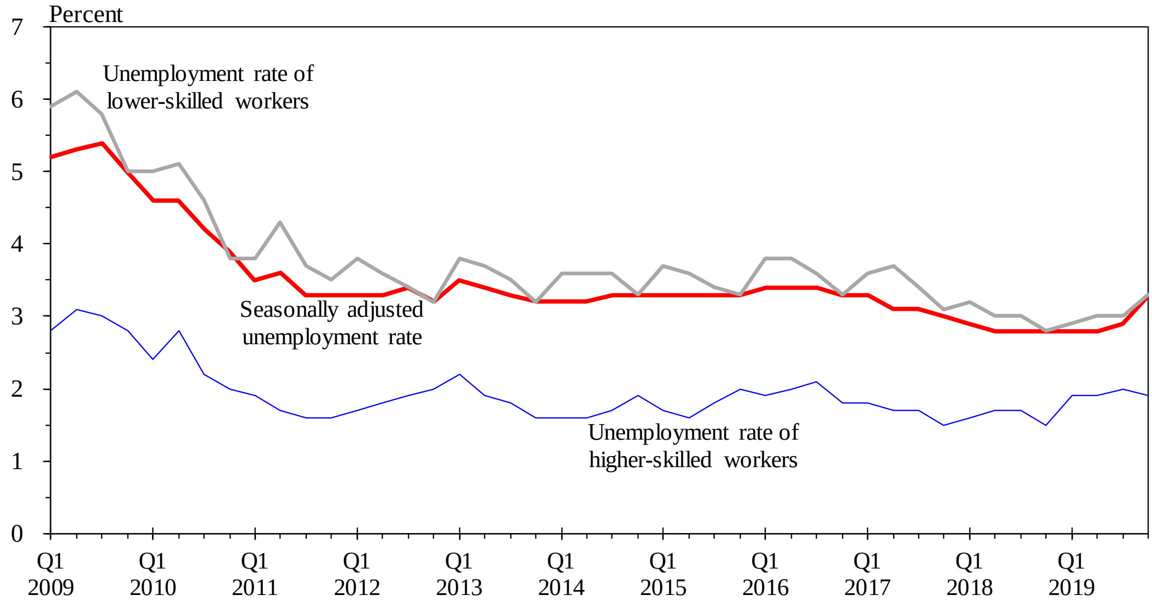


Table 6.4 : Unemployment rates* by skill segment

	2018					2019				
	Annual	Q1	Q2	Q3	Q4	Annual#	Q1	Q2	Q3	Q4
Higher-skilled segment	1.6	1.6	1.7	1.7	1.5	1.9	1.9	1.9	2.0	1.9
Managers and administrators	1.3	1.2	1.2	1.4	1.3	1.5	1.4	1.6	1.8	1.3
Professionals	1.2	1.1	1.0	1.4	1.5	1.4	1.6	1.7	1.1	1.4
Associate professionals	2.0	2.0	2.2	1.9	1.7	2.3	2.4	2.2	2.4	2.4
Lower-skilled segment^	3.0	3.2	3.0	3.0	2.8	3.1	2.9	3.0	3.0	3.3
Clerical support workers	3.0	3.3	3.1	3.1	2.3	2.6	2.2	2.8	2.6	2.7
Service and sales workers	3.6	3.9	3.8	3.5	3.4	3.7	3.2	3.4	4.1	4.1
Craft and related workers	4.2	4.8	4.2	4.4	3.8	4.9	4.7	4.8	4.6	5.7
Plant and machine operators and assemblers	1.7	1.5	1.8	1.8	1.7	2.2	2.4	1.7	2.1	2.5
Elementary occupations	2.5	2.5	2.3	2.3	2.6	2.5	2.8	2.5	2.0	2.6

Notes : * Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

^ Including other occupations.

Provisional figures.

Source : General Household Survey, Census and Statistics Department.

Table 6.5 : Unemployment rates* by age and educational attainment

	2018					2019				
	Annual	Q1	Q2	Q3	Q4	Annual[#]	Q1	Q2	Q3	Q4
Age										
15-24	8.7	8.0	8.9	10.5	7.6	8.6	7.0	7.9	10.1	9.5
of which:										
15-19	*10.2*	*9.6*	*12.2*	*10.7*	*8.9*	*10.1*	*7.5*	*10.2*	*12.1*	*10.2*
20-24	*8.5*	*7.8*	*8.5*	*10.5*	*7.5*	*8.4*	*6.9*	*7.5*	*9.8*	*9.4*
25-29	3.7	3.9	3.5	3.9	3.5	3.8	3.9	3.9	3.7	3.9
30-39	1.9	1.9	2.1	1.8	1.8	2.1	1.9	2.1	2.3	2.1
40-49	2.2	2.1	2.2	2.3	2.1	2.2	2.2	2.4	2.1	2.3
50-59	2.5	2.6	2.6	2.3	2.6	2.8	2.6	2.7	2.6	3.1
≥ 60	2.0	2.1	1.8	2.1	1.9	2.4	2.4	2.1	2.2	2.7
Educational attainment										
Primary education and below	2.8	2.9	2.6	3.1	2.8	2.9	2.7	2.5	2.4	3.8
Lower secondary education	3.4	3.4	3.5	3.2	3.5	3.9	3.9	4.0	3.6	4.0
Upper secondary education^	2.7	2.8	2.8	2.6	2.6	2.7	2.5	2.7	2.8	2.7
Post-secondary education	2.7	2.6	2.7	3.2	2.4	2.9	2.6	2.7	3.1	3.1

Notes : * Not seasonally adjusted, but including first-time job-seekers and re-entrants into the labour force.

^ Including craft courses.

Provisional figures.

Source : General Household Survey, Census and Statistics Department.

6.8 Comparing the indicators for the intensity of unemployment in 2019 with those in 2018, the long-term unemployment rate (i.e. the proportion of persons unemployed for six months or longer in the labour force) remained unchanged at 0.6%, and the number of long-term unemployed persons increased slightly by 800 to 24 400. The share of long-term unemployment in total unemployment edged down from 21.0% to 20.8%. The median duration of unemployment shortened from 63 days to 61 days, whereas the proportion of dismissals or lay-offs among the total number of unemployed persons (not including first-time job-seekers and re-entrants into the labour force) fell by 3.4 percentage points to 42.2%. However, while the comparison on an annual basis remained generally stable, the long-term unemployment rate ticked up to 0.7% in the fourth quarter after staying at 0.6% in the preceding three quarters, suggesting a deterioration in the intensity of unemployment towards the end of 2019.

Profile of underemployment

6.9 The underemployment situation remained largely stable in the majority of 2019, but there was some deterioration in the final quarter of the year. Comparing 2019 with 2018, the underemployment rate remained unchanged at a low level of 1.1%, and the number of underemployed persons decreased by 1 000 to 42 200. On the quarterly profile, the underemployment rate edged up to 1.2% in the fourth quarter after staying at a low of 1.0% in the first three quarters. Analysed by sector, while the annual underemployment rates of major sectors were steady in 2019 as compared to 2018, there were discernable year-on-year increases in the underemployment rates of the construction sector (up 0.9 percentage point to 5.8%) and the food and beverage service activities sector (up 0.7 percentage point to 2.3%) in the fourth quarter after staying broadly stable in the first three quarters. Analysed by occupational category, the underemployment rate of the lower-skilled segment also showed a year-on-year increase in the fourth quarter (up 0.2 percentage point to 1.8%) after being largely steady in the first three quarters, while that of the higher-skilled segment remained broadly steady over the course of 2019.

Profile of employment in establishments

6.10 The quarterly statistics collected from private sector establishments on employment, vacancies, wages and payroll are available up to September 2019. Attempts have been made to bring the analysis more up-to-date by drawing reference to information from supplementary sources wherever possible.

6.11 Private sector employment showed an enlarged year-on-year decline of 1.4% in September 2019 to 2 832 300 after slipping into the first decline in almost ten years in June (down 0.3%), as worsened economic conditions increasingly weighed on labour demand. Looking at individual sectors, employment in accommodation and food services (down 4.2%) and retail (down 2.2%) deteriorated notably, as business of these sectors was hard hit by the local social incidents involving violence. Meanwhile, employment at construction sites (covering manual workers only) fell sharply by 10.0% due to falling construction activities, and that in import/export trade and wholesale saw a widened decline of 6.4% amid shrinking trade flows. On the other hand, employment at human health services grew notably by 4.8% in September 2019, reflecting the sustained labour demand in the sector. Analysed by establishment size, employment in *small and medium-sized enterprises (SMEs)*[(7)] decreased by 2.7% in September 2019, a larger decline than that of 0.2% in large enterprises. Taking the first three quarters of 2019 as a whole, private sector employment recorded a 0.5% decline, reversing the 1.1% growth in 2018. As for the civil service, employment increased by 2.3% in September 2019 and by 2.2% in the first nine months of 2019 combined over the respective periods of 2018.

Table 6.6 : Employment by major economic sector

	2018					2019		
	Annual average	Mar	Jun	Sep	Dec	Mar	Jun	Sep
Import/export trade and wholesale	536 600	538 400	537 700	535 900	534 400	519 300	511 700	501 400
	(-0.6)	(-0.5)	(-0.6)	(-0.6)	(-0.7)	(-3.6)	(-4.8)	(-6.4)
Retail	272 600	271 000	272 100	273 100	274 100	272 600	271 200	267 000
	(1.7)	(1.4)	(1.6)	(2.2)	(1.8)	(0.6)	(-0.3)	(-2.2)
Accommodation[(a)] and food services	291 000	286 200	290 600	293 100	294 300	294 000	293 500	280 800
	(3.1)	(1.9)	(3.2)	(3.4)	(3.8)	(2.7)	(1.0)	(-4.2)
Transportation, storage, postal and courier services	179 800	179 200	179 800	180 000	180 100	180 700	180 300	180 400
	(0.6)	(0.6)	(1.2)	(0.6)	(-0.1)	(0.8)	(0.3)	(0.2)
Information and communications	108 500	106 900	108 200	109 100	109 900	110 600	110 900	110 400
	(1.5)	(-0.3)	(1.5)	(2.3)	(2.6)	(3.4)	(2.5)	(1.2)
Financing, insurance, real estate, professional and business services	747 700	742 800	744 700	749 000	754 300	759 000	760 700	761 000
	(2.3)	(2.0)	(2.2)	(2.5)	(2.4)	(2.2)	(2.2)	(1.6)
Social and personal services	523 000	520 000	521 400	523 000	527 700	530 900	533 400	536 600
	(2.0)	(1.9)	(2.1)	(2.0)	(2.0)	(2.1)	(2.3)	(2.6)
Manufacturing	90 100	90 900	89 800	89 400	90 100	88 500	87 400	86 300
	(-3.0)	(-3.9)	(-3.8)	(-2.8)	(-1.5)	(-2.6)	(-2.7)	(-3.5)
Construction sites (covering manual workers only)	111 800	120 700	116 100	107 600	103 000	107 400	102 700	96 900
	(-5.8)	(2.6)	(2.9)	(-11.4)	(-16.1)	(-11.0)	(-11.5)	(-10.0)
All establishments surveyed in the private sector[(b)]	*2 872 500*	*2 867 400*	*2 871 500*	*2 871 700*	*2 879 300*	*2 874 300*	*2 863 700*	*2 832 300*
	(1.1)	*(1.1)*	*(1.4)*	*(1.0)*	*(0.7)*	*(0.2)*	*(-0.3)*	*(-1.4)*
		<0.3>	*<0.3>*	*<0.1>*	*<§>*	*<-0.2>*	*<-0.2>*	*<-0.9>*
Civil service[(c)]	*172 300*	*171 500*	*171 300*	*172 600*	*173 700*	*174 900*	*175 300*	*176 700*
	(2.1)	*(2.3)*	*(2.1)*	*(2.1)*	*(2.0)*	*(2.0)*	*(2.3)*	*(2.3)*

Notes : Employment figures enumerated from business establishments, as obtained from the Quarterly Survey of Employment and Vacancies, are somewhat different from those enumerated from households, as obtained from the General Household Survey. This is mainly due to the difference in sectoral coverage: while the former survey covers selected major sectors, the latter survey covers all sectors in the economy.

(a) Accommodation services sector covers hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

(b) The total figures on private sector employment cover also employment in mining and quarrying; and in electricity and gas supply, and waste management, besides employment in the major sectors indicated above.

(c) These figures cover only those employed on civil service terms of appointment. Judges, judicial officers, ICAC officers, locally engaged staff working in the Hong Kong Economic and Trade Offices outside Hong Kong, and other government employees such as non-civil service contract staff are not included.

( ) % change over a year earlier.

< > Seasonally adjusted quarter-to-quarter % change.

§ Change less than 0.05%.

Sources : Quarterly Survey of Employment and Vacancies, Census and Statistics Department.
Quarterly Employment Survey of Construction Sites, Census and Statistics Department.

Vacancies

6.12 Also reflecting the notably weakened labour demand, the number of private sector job vacancies plunged by 19.5% in September 2019 over a year earlier after a dip of 7.2% in June. Taking the first three quarters of 2019 as a whole, the number of private sector job vacancies decreased by 7.8% from a year earlier, reversing the 9.6% gain in 2018.

6.13 Many major economic sectors saw sharp falls in vacancies in September 2019 compared to a year earlier, including food and beverage services (down 57.3%), accommodation services (down 50.4%), manufacturing (down 34.0%), retail (down 25.5%), import/export trade and wholesale (down 18.5%), and real estate (down 17.3%). On the other hand, vacancies at construction sites (covering manual workers only) rose by 12.0%, but that should be viewed alongside the noticeable drop in sectoral employment. In terms of occupational category, the numbers of vacancies in the lower-skilled and higher-skilled segments both went down, by 25.9% and 6.6% respectively. Analysed by establishment size, the numbers of vacancies in large enterprises and SMEs dropped by 13.5% and 29.0% respectively. In contrast, the number of job openings in the civil service rose by 5.5% to 9 970.

6.14 The ratio of job vacancies per 100 unemployed persons in September 2019, at 52, was noticeably lower than the level of 66 a year earlier, reflecting a slackening in the overall manpower balance. Analysed by skill segment, the ratio in the lower-skilled segment declined from the year-ago level of 74 to 55 in September 2019, and that in the higher-skilled segment likewise from 97 to 76. Yet, manpower shortage was still acute in some sectors, such as residential care and social work services, and human health services, where the ratios remained well above 100.

Table 6.7 : Vacancies by major economic sector

	Number of vacancies								
	2018					2019			Vacancy rate in Sep 2019 (%)
	Annual average	Mar	Jun	Sep	Dec	Mar	Jun	Sep	
Import/export trade and wholesale	7 490 (1.2)	7 600 (0.8)	7 780 (6.2)	7 570 (-0.6)	7 030 (-1.7)	6 800 (-10.5)	6 470 (-16.9)	6 170 (-18.5)	1.2
Retail	8 220 (7.6)	8 110 (7.6)	7 980 (12.7)	8 010 (-1.4)	8 770 (12.4)	8 350 (2.9)	7 650 (-4.1)	5 970 (-25.5)	2.2
Accommodation[a] and food services	14 230 (6.5)	14 380 (5.2)	14 360 (8.6)	14 260 (12.9)	13 910 (§)	14 700 (2.3)	11 190 (-22.1)	6 240 (-56.2)	2.2
Transportation, storage, postal and courier services	4 360 (22.7)	4 040 (12.2)	4 660 (30.9)	4 480 (24.5)	4 250 (23.4)	4 780 (18.2)	4 090 (-12.2)	3 800 (-15.2)	2.1
Information and communications	2 980 (9.1)	3 120 (14.6)	3 250 (19.9)	2 790 (1.4)	2 780 (0.5)	2 950 (-5.4)	3 040 (-6.3)	2 860 (2.6)	2.5
Financing, insurance, real estate, professional and business services	20 130 (9.3)	19 830 (6.5)	20 160 (8.7)	20 540 (12.6)	19 980 (9.3)	20 570 (3.7)	20 130 (-0.1)	18 560 (-9.6)	2.4
Social and personal services	16 980 (17.2)	16 140 (19.9)	17 250 (31.4)	17 050 (14.3)	17 490 (6.4)	17 860 (10.6)	17 220 (-0.2)	16 720 (-2.0)	3.0
Manufacturing	2 850 (17.5)	2 610 (1.6)	2 950 (28.9)	2 900 (29.4)	2 940 (12.9)	2 490 (-4.6)	2 660 (-9.7)	1 910 (-34.0)	2.2
Construction sites (covering manual workers only)	700 (-34.6)	850 (49.8)	580 (-61.5)	520 (-38.0)	850 (-37.9)	870 (2.0)	780 (33.6)	580 (12.0)	0.6
All establishments surveyed in the private sector[b]	*78 150* *(9.6)*	*76 880* *(9.1)* *<0.5>*	*79 200* *(13.8)* *<3.7>*	*78 340* *(10.1)* *<0.8>*	*78 190* *(5.6)* *<0.4>*	*79 580* *(3.5)* *<-1.3>*	*73 460* *(-7.2)* *<-7.0>*	*63 030* *(-19.5)* *<-12.6>*	*2.2*
Civil service[c]	*8 960* *(7.7)*	*7 540* *(-13.0)*	*8 920* *(5.9)*	*9 450* *(14.8)*	*9 950* *(24.8)*	*9 820* *(30.2)*	*10 260* *(15.0)*	*9 970* *(5.5)*	*5.3*

Notes : Vacancy rate refers to the ratio of vacancies to total employment opportunities (actual employment plus vacancies).

(a) Accommodation services sector covers hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

(b) The total figures on private sector vacancies cover also vacancies in mining and quarrying; and in electricity and gas supply, and waste management, besides vacancies in the major sectors indicated above.

(c) These figures cover only vacancies for those staff to be employed on civil service terms of appointment.

( ) % change over a year earlier.

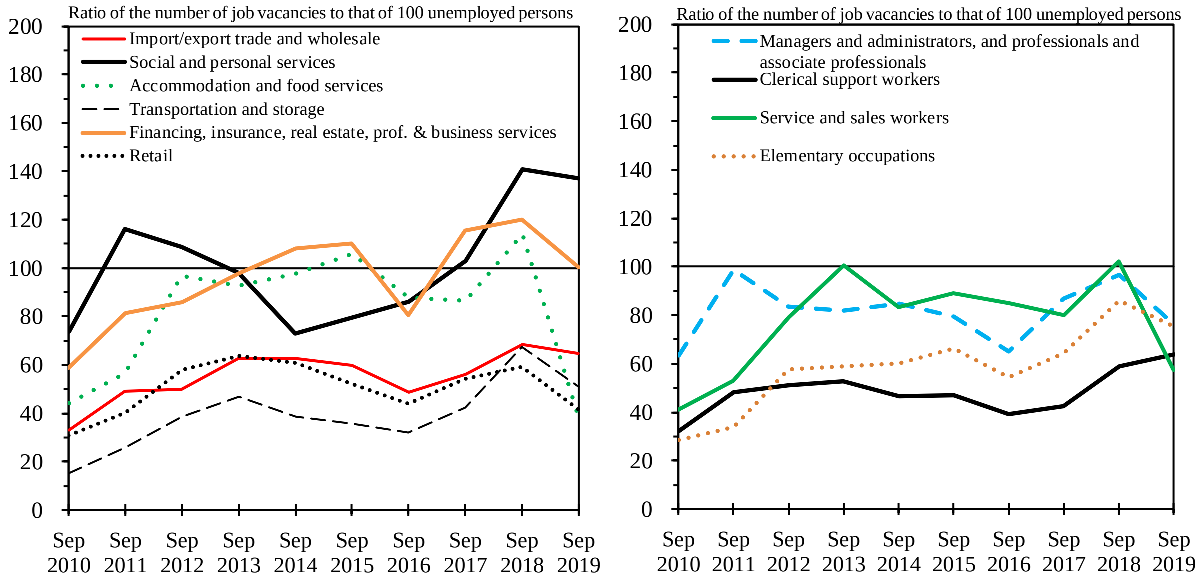
< > Seasonally adjusted quarter-to-quarter % change.

§ Change less than 0.05%.

Sources : Quarterly Survey of Employment and Vacancies, Census and Statistics Department.
Quarterly Employment Survey of Construction Sites, Census and Statistics Department.

Diagram 6.5 : Overall manpower balance slackened in September 2019, though manpower shortage was still acute in some sectors

(a) By economic sector (b) By occupation



6.15 The vacancy rate for private sector establishments, measured in terms of the number of job vacancies as a percentage of total employment opportunities, decreased by 0.5 percentage point from a year earlier to 2.2% in September 2019, the lowest since December 2011. Most sectors recorded lower vacancy rates, with visible declines observed in the accommodation services, and food and beverage services sectors.

6.16 The vacancy registration figures compiled by the Labour Department (LD) may provide some hints on the latest developments in the labour market. The number of private sector job vacancies averaged 89 200 per month in the fourth quarter of 2019, representing an enlarged decline of 26.0% over a year earlier from that of 11.2% in the third quarter. There were sharp falls in vacancies across most sectors.

Wages and earnings

6.17 Nominal wages and earnings continued to increase in the first three quarters of 2019, but the pace of increase decelerated somewhat in the third quarter. The nominal *wage index* for all selected industry sections, which covers regular payment to employees at the supervisory level and below, rose by 3.4% in September 2019 over a year earlier, slower than the 3.9% growth in the first half of the year. For the first nine months of 2019 combined, overall nominal wages went up by 3.7%, slightly slower than the 4.0% gain recorded for 2018 as a whole. After adjusting for inflation(8) which has been driven up by elevated pork prices since May 2019, overall real wages increased by 0.4% in the first nine months of 2019 combined.

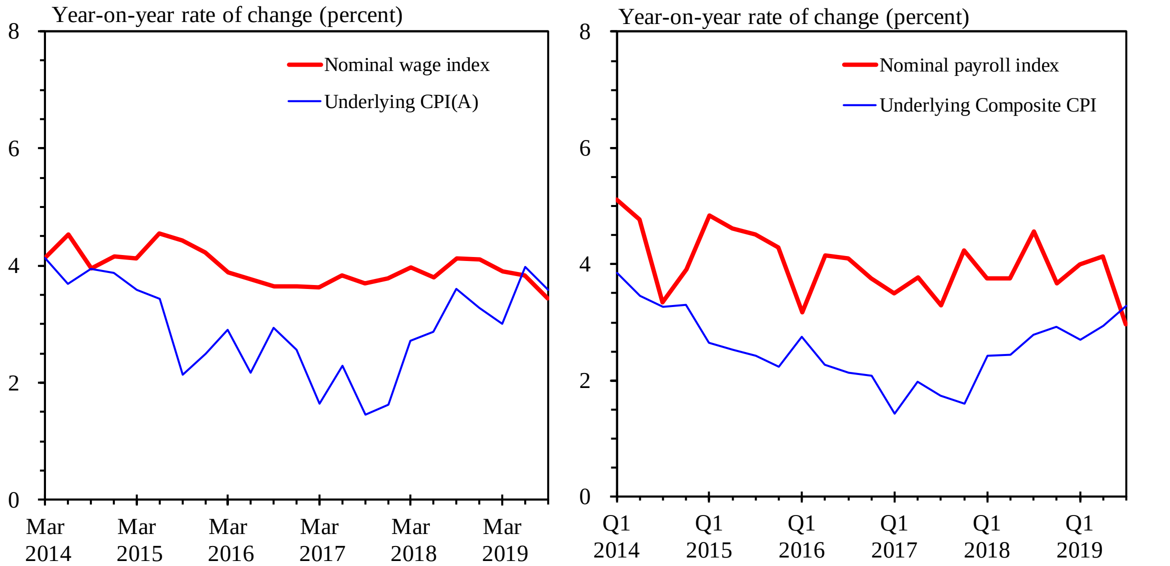
6.18 In September 2019, all selected sectors continued to register modest to moderate growth in wages on a year-on-year basis, but their growth paces slowed by varying degrees. The increase in the nominal wage index for transportation slowed to 3.9% in September from 5.4% in June, that for accommodation and food service activities to 4.1% from 4.4%, and that for import/export, wholesale and retail trades to 2.3% from 2.5%. Analysed by occupation, craftsmen and miscellaneous non-production workers enjoyed appreciable wage gains, both at 4.5%.

6.19 *Labour earnings*(9), as measured by the index of payroll per person engaged for all selected industry sections, which also covers overtime pay, discretionary bonuses and other irregular payments, likewise registered a decelerated year-on-year increase of 3.0% in the third quarter of 2019, as compared to the 4.1% gain in the first half of the year. While the economic slowdown played a part, the delay in pay adjustment in some subvented organisations also contributed to the slower growth. Taking the first three quarters of 2019 together, labour earnings increased by 3.7%, slightly slower than the 3.9% gain recorded for 2018 as a whole. After discounting for inflation, labour earnings increased by 0.9% in the first three quarters of 2019 combined.

6.20 The deceleration in labour earnings growth was across all selected service sectors in the third quarter of 2019, whether it was for those sectors with more visible increases, such as accommodation and food service activities (up 4.9%, slower than that of 5.3% in the second quarter) and real estate activities (up 4.1%, slower than that of 4.4% in the second quarter), or for sectors with relatively modest increases, as in import/export and wholesale trades (up 2.3%, slower than that of 2.7% in the second quarter) and retail trade (up 2.2%, slower than that of 2.5% in the second quarter). The deceleration was particularly visible in social and personal services (up 0.1%, visibly slower than that of 4.0% in the second quarter), mainly due to the delay in pay adjustment in some subvented organisations.

Diagram 6.6 : Wages and earnings growth decelerated somewhat in the third quarter of 2019

(a) Wage index **(b) Payroll index**



Note : The year-on-year rates of change of the CPIs from the fourth quarter of 2015 onwards are computed from the new 2014/15-based series, and those before are from the old 2009/10-based series.

6.21 More recent statistics compiled from the General Household Survey, though not strictly comparable to those from the business establishment surveys, suggested that earnings of low-income workers continued to increase throughout 2019. However, the household income situation weakened in the second half of the year. *Average monthly employment earnings*(10) of full-time employees (excluding foreign domestic helpers) of the lowest three decile groups combined increased by 3.8% year-on-year in the fourth quarter of 2019, broadly comparable to the gains in the first three quarters. For 2019 as a whole, the increase averaged 3.8%, slightly above the inflation rate of 3.3% as measured by the Consumer Price Index (A) which was driven up by the surge in pork prices since May 2019. Separately, the average monthly employment earnings of all full-time employees (excluding foreign domestic helpers) saw a further deceleration in growth in the fourth quarter, to 3.9% from 4.7% in the third quarter. For the year as a whole, the increase averaged 6.3% in nominal terms or 3.3% in real terms. Meanwhile, the median monthly household income (excluding foreign domestic helpers) showed a larger decline of 3.3% in the fourth quarter after reverting to a decline of 1.0% in the third quarter. It still grew slightly by 0.7% for 2019 as a whole thanks to the increase in the first half, yet this was visibly slower than the growth of 6.7% recorded in 2018.

Highlights of labour-related measures and policy developments in 2019

6.22 LD regularly organises large-scale job fairs in different locations, canvassing vacancies from various industries for application by job seekers on the spot. In 2019, LD organised 18 large-scale job fairs in various districts. A total of 493 participating organisations offered more than 35 600 job opportunities in the retail, catering, property management, transport and other industries. There were also 17 training bodies joining the job fairs to introduce job-related training courses and accept applications on the spot. Apart from large-scale job fairs, district-based job fairs are organised frequently at LD's job centres to assist job seekers in finding employment in their locality. Recruitment activities are also staged by catering, retail and construction employers at the three industry-based recruitment centres regularly for interviewing job seekers on the spot.

6.23 Moreover, entrusted by the Government, the Employees Retraining Board launched the one-off "Love Upgrading Special Scheme" (Special Scheme) in October 2019. Employees affected by the recent economic downturn may enrol in training courses to upgrade their skills and pursue self-enhancement, with a view to re-joining the employment market as soon as possible. It was estimated that a maximum of 10 000 affected employees could take part in the first tranche of the Special Scheme.

6.24 Since the increase of the Statutory Minimum Wage (SMW) rate by 8.7% to $37.5 per hour with effect from 1 May 2019, LD has launched territory-wide publicity activities and targeted enforcement campaigns. The revised SMW rate has been operating smoothly with the earnings of grassroots workers continuously improved.

Notes :

(1) Labour force statistics enumerated from the General Household Survey are statistics which involve the use of the population figures in the compilation process. The statistics of the three-month periods of November 2017 – January 2018 to October – December 2018 have been revised to take into account the final end-2018 population estimates.

The classification of occupation adopted by the Census and Statistics Department follows the International Standard Classification of Occupations (ISCO), which is used to classify the occupation of an employed person or the previous occupation of an unemployed person. After the implementation of the new ISCO, 2008 (ISCO-08), the General Household Survey has been enhanced to adopt the ISCO-08 in compiling labour force statistics by occupation, with statistics backcasted to the quarter of January – March 2011. Starting from the reference quarter of January – March 2011, all the labour force statistics by occupation, unless otherwise specified, are compiled based on the ISCO-08.

(2) For a person aged 15 or above to be classified as unemployed, he or she should: (a) not have a job and not be performing any work for pay or profit during the reference period (i.e. seven days before enumeration); (b) be available for work during the reference period; and (c) be seeking work during the 30 days before enumeration.

Notwithstanding the above, the following types of persons are also considered unemployed: (a) persons without a job, having sought work but not available for work because of temporary sickness; (b) persons without a job, available for work but not having sought work because they will take up new jobs or start business at a subsequent date, or expect to return to their original jobs; and (c) discouraged workers not having sought work because they believe work is not available to them.

Even at full employment, some frictional unemployment is bound to exist as workers move between jobs in order to obtain better terms of employment. The precise level of unemployment which can be described as purely frictional varies amongst economies, depending on the structure and characteristics of their labour markets.

The seasonally adjusted series is compiled using the X-12 ARIMA method, which is a standard method applied in compiling seasonally adjusted statistical data series.

(3) The main criteria for an employed person aged 15 or above to be classified as underemployed are: involuntarily working less than 35 hours during the reference period (i.e. seven days before enumeration), and either available for additional work during the reference period or seeking additional work during the 30 days before enumeration.

Following these criteria, employed persons taking no-pay leave due to slack work during the reference period are also classified as underemployed if they had worked less than 35 hours or were on leave for the entire reference period.

(4) The labour force, or the economically active population, is defined to include all persons aged 15 or above who either were engaged in productive work during the reference period (i.e. seven days before enumeration) or would otherwise have been engaged in productive work but were unemployed.

(5) Figures enumerated from household data. The employed population is defined here to include those persons aged 15 or above who performed work for pay or profit or had a formal job attachment during the reference period (i.e. seven days before enumeration).

(6) The low-paying sectors as identified by the fourth-term Minimum Wage Commission include:
(i) retail (including supermarkets and convenience stores, and other retail stores);
(ii) restaurants (including Chinese restaurants, non-Chinese restaurants, fast food cafes, and Hong Kong style tea cafes);
(iii) estate management, security and cleaning services (including real estate maintenance management, security services, cleaning services and membership organisations);
(iv) other low-paying sectors, including
- elderly homes;
- laundry and dry cleaning services;
- hairdressing and other personal services;
- local courier services; and
- food processing and production.

(7) Manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees are regarded as small and medium-sized enterprises (SMEs) in Hong Kong. Yet, establishments with the same main business registration number (BRN) and engaging in activities of the same industry sector are grouped into one business unit for the purpose of calculating the number of SMEs. Thus, a business with a lot of small chain stores each employing a small number of employees will be considered as a single large enterprise, instead of separate SMEs.

(8) Different consumer price indices (CPIs) are used for compiling the real indices of labour earnings and wages, taking into account their relevance to the respective occupation coverage. Specifically, the Composite CPI, being an indicator of overall consumer prices, is taken as the price deflator for earnings received by employees at all levels of the occupational hierarchy. The CPI(A), being an indicator of consumer prices for the relatively low expenditure group, is taken as the price deflator for wages in respect of employees engaged in occupations up to the supervisory level.

(9) In addition to wages, which include all regular and guaranteed payments like basic pay and stipulated bonuses and allowances, earnings also cover overtime pay and other non-guaranteed or irregular bonuses and allowances, except severance pay and long service payment. Because of this difference, as well as the difference in sectoral and occupational coverage, the movements in average earnings, as measured by payroll per person engaged, do not necessarily match closely with those in wage rates.

(10) The average (mean) monthly employment earnings are easily affected by extreme values in the survey sample, more so when reckoned for higher-end workers. They should therefore be interpreted with caution, in particular when they are compared over time.

CHAPTER 7 : PRICES

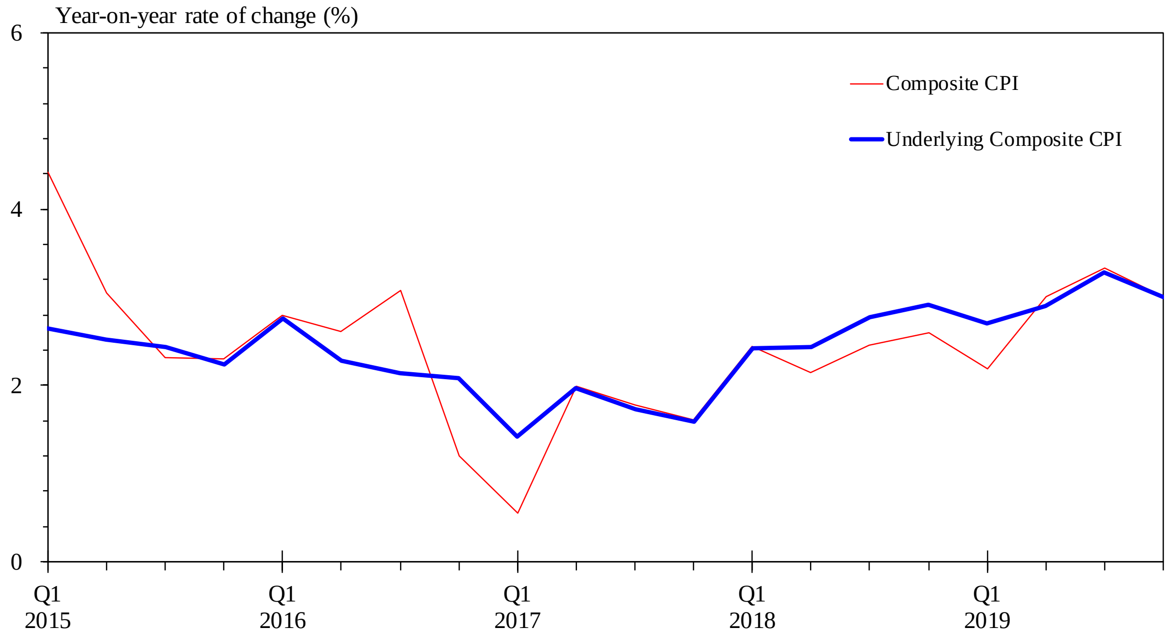
Summary

- *Consumer price inflation went up in 2019 mainly due to a sharp increase in pork prices amid disruptions to the supply of fresh pork since May 2019. Price pressures on other major underlying consumer price index components were largely moderate. The increase in the underlying Composite Consumer Price Index (Composite CPI)*[(1)]*, which nets out the effects of the Government's one-off relief measures to reflect the underlying inflation trend, climbed from 2.6% in 2018 to 3.0% in 2019. Likewise, the headline Composite CPI inflation rate went up from 2.4% to 2.9%.*
- *Domestically, the increase in underlying private housing rentals stayed on an easing trend in 2019. As to cost pressures, labour wages and earnings stayed on the rise but at a somewhat moderated pace in the latter part of the year, while the pressures on commercial rental costs abated amid the economic downturn.*
- *External price pressures receded through 2019, thanks to some moderation in inflation rates in many of our major import sources*[(2)]* and generally soft international commodity and energy prices amid the global economic slowdown. The strength of the Hong Kong dollar along with the US dollar against other major currencies during the year also contributed to the lower imported inflation.*

Consumer prices

7.1 Consumer price inflation went up in 2019, mainly reflecting a sharp increase in pork prices amid disruptions to the supply of fresh pork since May 2019. Domestically, among the underlying consumer price index components, the increase in private housing rentals narrowed progressively throughout the year as the easing in fresh-letting residential rentals since late 2018 continued to feed through. As to business costs, labour wages and earnings stayed on the rise but at a somewhat moderated pace in the latter part of the year, while the pressures on commercial rental costs abated amid the economic downturn. Reportedly, in response to the local social incidents, some landlords of commercial properties offered temporary rental relief to help their tenants navigate through the difficult business environment in the second half of the year. External price pressures receded through the year, as inflation in many major import sources moderated whereas international commodity and energy prices generally softened alongside the global economic slowdown. The strength of the Hong Kong dollar along with the US dollar vis-à-vis other major currencies during the year also contributed to the lower imported inflation.

Diagram 7.1: Consumer price inflation went up in 2019 mainly due to a sharp increase in pork prices



Note : The year-on-year rates of change of the CPIs from the fourth quarter of 2015 onwards are computed from the new 2014/15-based series, and those before are from the old 2009/10-based series.

7.2 Underlying consumer price inflation, in terms of the rate of change in the underlying Composite CPI, which nets out the effects of the Government's one-off relief measures to reflect the underlying inflation trend, went up from 2.6% in 2018 to 3.0% in 2019. The faster inflation was mainly driven by a sharp increase in pork prices amid the reduced supply of fresh pork since May 2019. Price pressures on other major underlying consumer price index components were largely moderate. Quarterly figures showed that underlying inflation picked up from 2.7% in the first quarter to 2.9% in the second quarter, then jumped to 3.3% in the third quarter amid surging pork prices before easing back to 3.0% in the fourth quarter alongside the economic downturn. The headline Composite CPI inflation rate likewise went up from 2.4% in 2018 to 2.9% in 2019. Despite the downward adjustment of the quarterly ceiling of the Government's rates concession from April 2019, the headline rate remained lower than the underlying rate for the year as a whole, thanks to the Government's Electricity Charges Relief Scheme which took effect since January 2019.

Table 7.1 : Consumer Price Indices

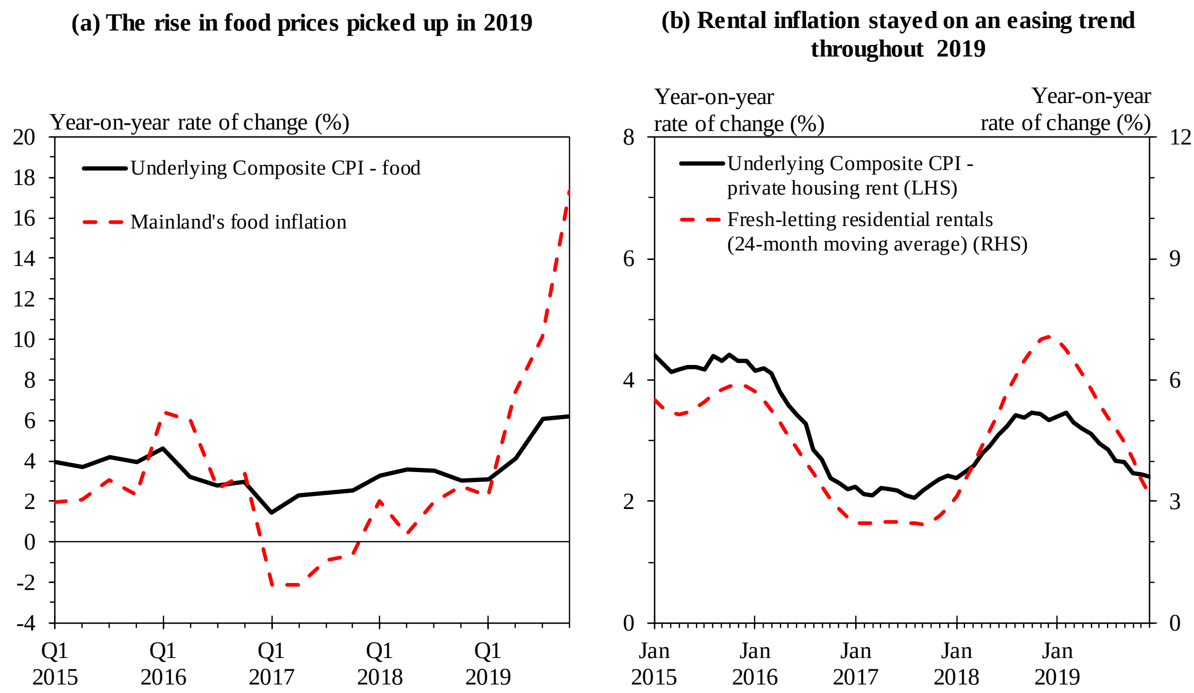
(year-on-year rate of change (%))

		Composite CPI		CPI(A)	CPI(B)	CPI(C)
		Underlying[(a)]	Headline			
2018	Annual	2.6	2.4	2.7	2.3	2.2
	H1	2.4	2.3	2.5	2.2	2.2
	H2	2.9	2.5	2.9	2.4	2.3
	Q1	2.4	2.4	2.6	2.4	2.4
	Q2	2.4	2.1	2.4	2.1	2.0
	Q3	2.8	2.5	2.8	2.4	2.2
	Q4	2.9	2.6	3.1	2.4	2.3
2019	Annual	3.0	2.9	3.3	2.7	2.6
	H1	2.8	2.6	3.0	2.4	2.4
	H2	3.1	3.1	3.6	3.0	2.8
	Q1	2.7	2.2	2.6	2.1	2.0
	Q2	2.9	3.0	3.3	2.8	2.8
	Q3	3.3	3.3	3.9	3.1	3.0
	Q4	3.0	3.0	3.4	2.9	2.6
		(seasonally adjusted quarter-to-quarter rate of change (%))				
2018	Q1	0.8	0.8	0.8	0.9	0.8
	Q2	0.7	0.4	0.6	0.3	0.2
	Q3	0.6	0.6	0.8	0.6	0.5
	Q4	0.7	0.8	0.8	0.6	0.8
2019	Q1	0.6	0.4	0.4	0.5	0.4
	Q2	1.0	1.2	1.2	1.1	1.1
	Q3	1.0	0.9	1.3	0.9	0.6
	Q4	0.4	0.5	0.5	0.5	0.5

Note : (a) Underlying consumer price inflation is calculated by netting out the effects of all Government's one-off relief measures introduced since 2007, including the waiver and Government's payment of public housing rentals, rates concession, suspension and subsequent abolition of Employees Retraining Levy, subsidies for household electricity charges, and waiver of examination fees.

7.3 Analysed by major component of the underlying Composite CPI, the rise in food prices, the component with the largest weight other than housing, picked up to 4.9% in 2019. Within food prices, prices of basic foodstuffs soared by 9.9%, the largest increase since 2011, due to a surge in pork prices. In contrast, the rise in prices of meals bought away from home moderated to 2.2%. Meanwhile, the increase in the private housing rental component stayed on an easing trend throughout 2019, averaging 2.9% for the year as a whole, as the moderation in fresh-letting residential rentals since late 2018 continued to feed through. On the other hand, the public housing rental component showed a faster increase due to the carry-over effect of the upward adjustment in public housing rentals in September 2018. As for other major components, prices of miscellaneous goods, miscellaneous services and transport rose moderately, whereas prices of electricity, gas and water registered a slower increase. Prices of clothing and footwear relapsed to a decline as local economic conditions worsened, while prices of durable goods continued its secular downtrend.

Diagram 7.2 : Food and private housing rental components of the underlying Composite CPI



Note : The year-on-year rates of change of the CPIs from October 2015 onwards are computed from the new 2014/15-based series, and those before are from the old 2009/10-based series.

Diagram 7.3 (a) : Apart from food, price pressures on other major underlying consumer price index components were largely moderate in 2019

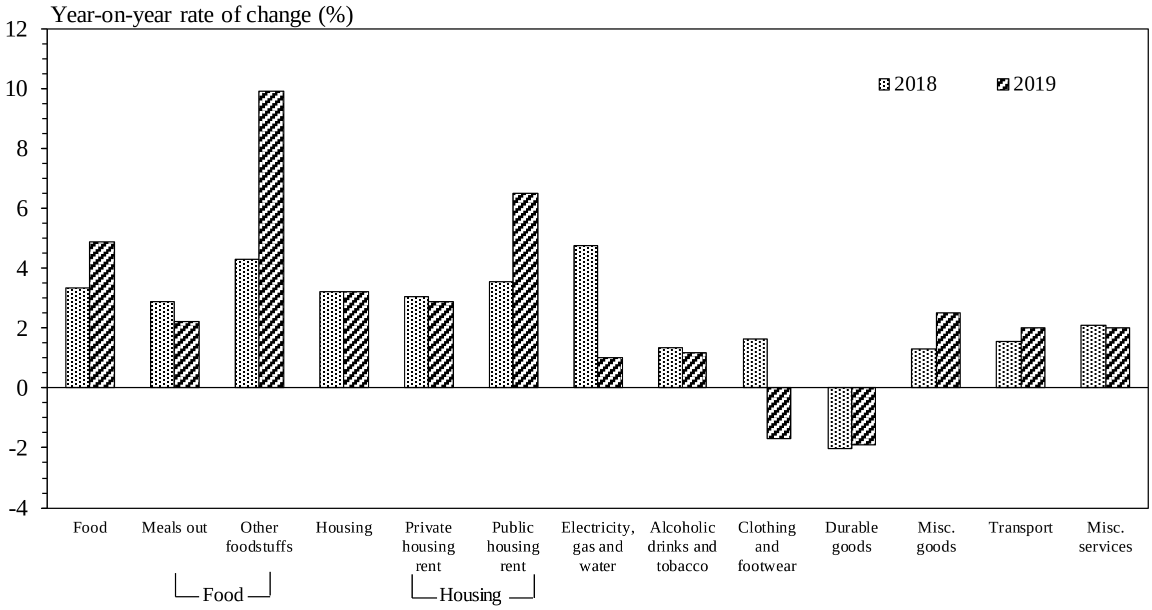
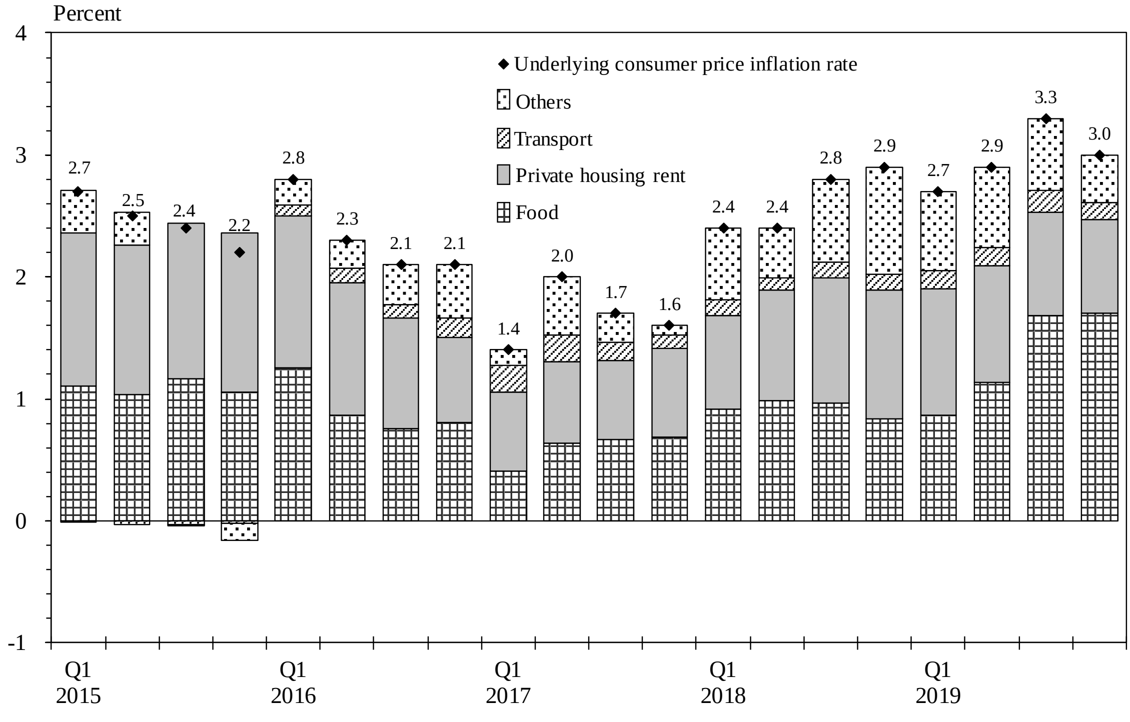


Diagram 7.3 (b) : Contribution to underlying consumer price inflation rate by major component



Note : The year-on-year rates of change of the Composite CPIs from the fourth quarter of 2015 onwards are computed from the new 2014/15-based series, and those before are from the old 2009/10-based series.

Table 7.2 : Underlying Composite Consumer Price Index by component
(year-on-year rate of change (%))

Expenditure component	Weighting (%)	2018	2019 Annual	2019 Q1	2019 Q2	2019 Q3	2019 Q4
Food	27.29	3.4	4.9	3.1	4.1	6.1	6.2
Meals bought away from home	17.74	2.9	2.2	2.3	2.1	2.1	2.1
Other foodstuffs	9.55	4.3	9.9	4.6	7.7	13.4	13.7
Housing[(a)]	34.29	3.2	3.2	3.9	3.6	3.1	2.4
		(2.5)	(3.5)	(2.9)	(4.2)	(3.7)	(3.1)
Private housing rent	29.92	3.1	2.9	3.4	3.1	2.7	2.5
		(2.2)	(3.1)	(2.3)	(3.8)	(3.4)	(3.1)
Public housing rent	1.94	3.6	6.5	10.1	9.8	6.5	0.4
		(4.1)	(7.1)	(11.6)	(10.9)	(6.9)	(-0.2)
Electricity, gas and water	2.67	4.7	1.0	1.4	1.5	0.8	0.2
		(4.9)	(-5.4)	(-4.9)	(-4.8)	(-5.6)	(-6.3)
Alcoholic drinks and tobacco	0.54	1.3	1.2	2.7	2.4	0.5	-0.7
Clothing and footwear	3.21	1.6	-1.7	-0.2	-1.7	-1.5	-3.4
Durable goods	4.65	-2.0	-1.9	-2.1	-2.0	-1.5	-2.0
Miscellaneous goods	3.56	1.3	2.5	1.6	2.0	2.9	3.3
Transport	7.98	1.6	2.0	1.9	2.0	2.3	1.9
Miscellaneous services	15.81	2.1	2.0	1.9	2.5	1.8	1.9
		(2.1)	(2.0)	(1.8)	(2.5)	(1.7)	(1.9)
All items	100.00	2.6	3.0	2.7	2.9	3.3	3.0
		(2.4)	(2.9)	(2.2)	(3.0)	(3.3)	(3.0)

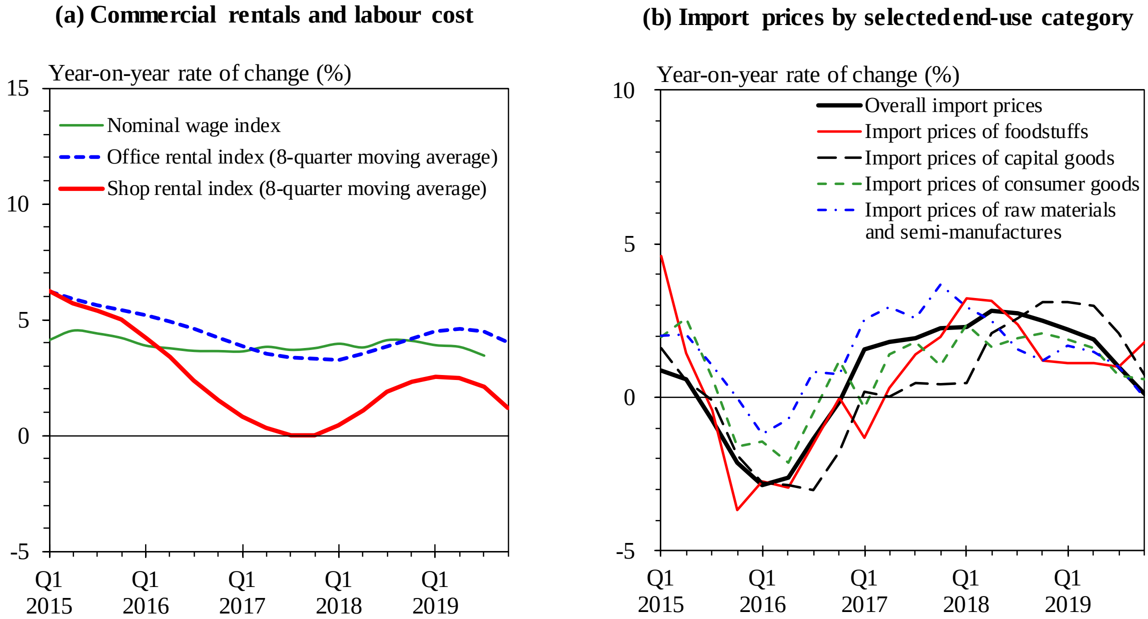
Notes : (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public housing rents as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public housing rents is slightly less than the weighting of the entire housing component.

( ) Figures in brackets represent the headline rates of change before netting out the effects of Government's one-off relief measures.

Costs of factor inputs and import prices

7.4 Domestic cost pressures were largely steady in the first half of 2019 before easing somewhat in the second half. Nominal wages and earnings continued to rise, but at a somewhat slower pace more recently amid an easing labour market. The pressures on commercial rental costs abated as economic conditions worsened, especially so in the latter part of the year. As a proxy for the rental costs faced by businesses, the increase in the eight-quarter moving averages of office rentals edged down to 4.0% in 2019, whereas that of shop rentals moderated to 1.2%. Reportedly, in view of the significant blows to consumption and tourism-related business activities caused by the local social incidents with violence, some landlords of commercial properties provided tenants with temporary rental relief in the second half of the year.

Diagram 7.4 : Local cost pressures eased somewhat in the second half of 2019; external price pressures receded through the year



7.5 External price pressures receded through 2019, especially so in the second half of the year. Amid the global economic slowdown, inflation rates in many of our key import sources moderated, while international commodity and energy prices generally softened. Moreover, the Hong Kong dollar strengthened along with the US dollar against other major currencies in 2019. As a result, the year-on-year increase in overall import prices moderated to 2.0% in the first half of 2019 and further to 0.5% in the second half. For 2019 as a whole, overall import prices registered a visibly smaller increase of 1.3% as compared to 2.6% in 2018. Analysed by major end-use categories, import prices of foodstuffs, consumer goods, and raw materials and semi-manufactures saw slower increases of 1.3%, 1.1% and 1.0% respectively in 2019. While the rise in import prices of capital goods held stable at 2.1% for the year as a whole, it has been on a moderating trend since the second quarter. Meanwhile, import prices of fuels relapsed to a decline of 5.9% in 2019 as global oil prices went lower.

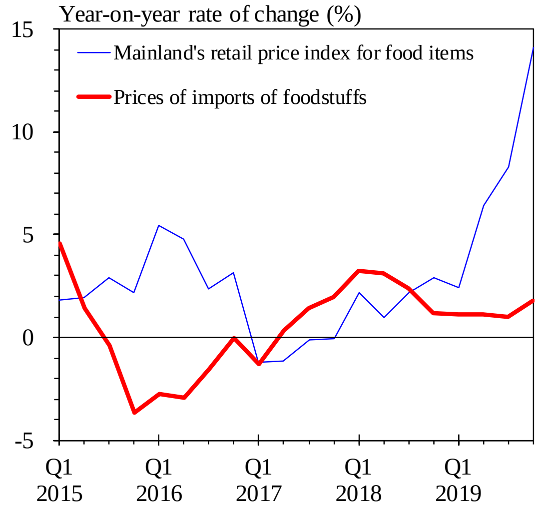
Table 7.3 : Prices of imports by end-use category
(year-on-year rate of change (%))

		Foodstuffs	Consumer goods	Raw materials and semi-manufactures	Fuels	Capital goods	All
2018	Annual	2.4	2.0	2.0	24.9	2.1	2.6
	H1	3.2	2.0	2.7	23.3	1.3	2.6
	H2	1.8	2.0	1.4	26.6	2.8	2.6
	Q1	3.2	2.4	2.9	16.0	0.5	2.3
	Q2	3.1	1.6	2.5	30.4	2.1	2.8
	Q3	2.4	1.9	1.6	34.4	2.6	2.7
	Q4	1.2	2.1	1.2	19.5	3.1	2.5
2019	Annual	1.3	1.1	1.0	-5.9	2.1	1.3
	H1	1.1	1.7	1.6	-0.7	3.0	2.0
	H2	1.4	0.6	0.5	-10.7	1.3	0.5
	Q1	1.1	1.9	1.7	1.3	3.1	2.2
	Q2	1.1	1.6	1.5	-2.2	3.0	1.9
	Q3	1.0	0.7	1.0	-11.3	2.1	1.0
	Q4	1.8	0.6	*	-10.2	0.7	0.1

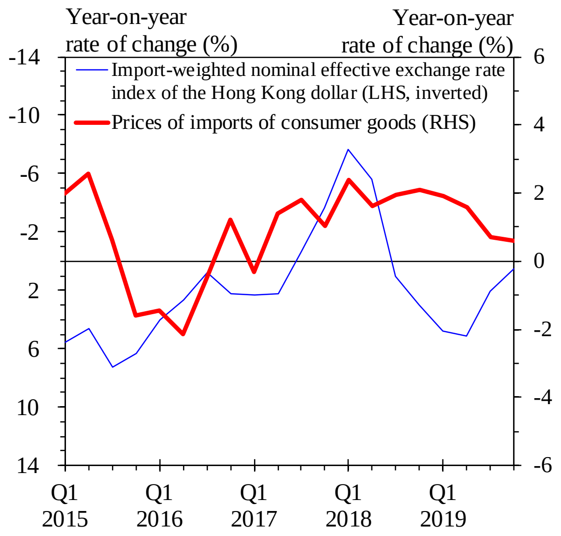
Note : (*) Change within ±0.05%.

Diagram 7.5: Import prices by end-use category

(a) Increase in import prices of foodstuffs remained modest before showing some pick-up in the fourth quarter of 2019

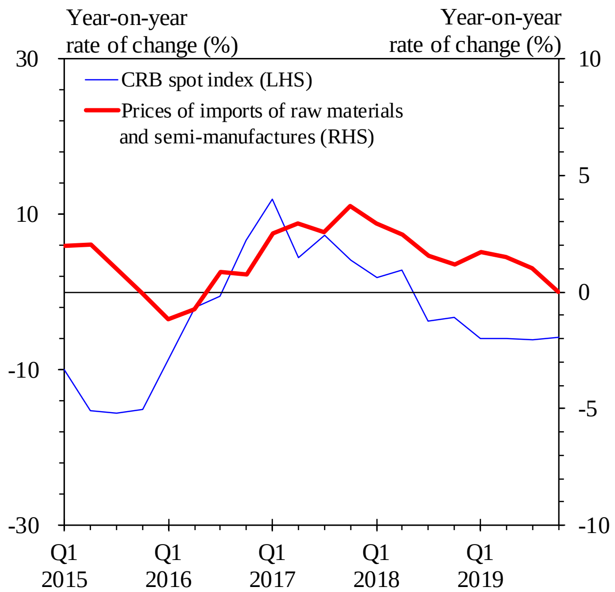


(b) Increase in import prices of consumer goods moderated

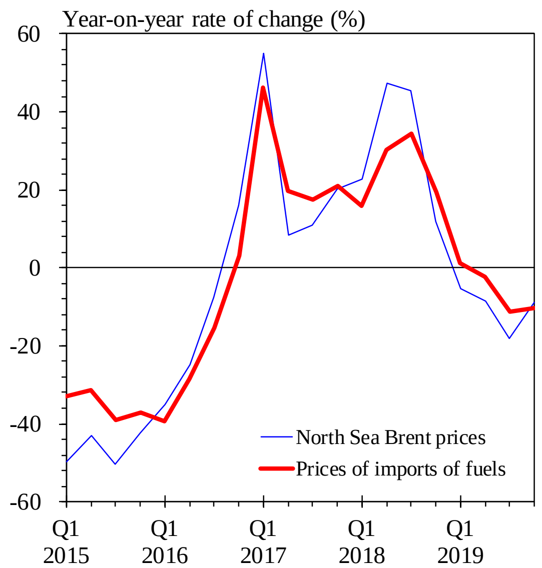


Note : An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

(c) Increase in import prices of raw materials and semi-manufactures eased



(d) Import prices of fuels relapsed to a decline



Output prices

7.6 Output prices, as measured by the *Producer Price Indices*[3], showed mixed movements across various sectors in the first three quarters of 2019. For the manufacturing sector, output prices increased at a moderated pace as compared to 2018. Among the selected service sectors, output prices for accommodation services softened gradually in the first half of 2019, and plunged alongside the severe setback in inbound tourism in the third quarter. Against the backdrop of slower trade flows amid a weaker global economy and US-Mainland trade tensions, output prices for air transport reverted to a decline and those for water transport showed a narrower increase in the first three quarters combined. Meanwhile, output prices for land transport continued to increase at a modest rate. On the other hand, output prices for courier services, despite reverting to some increases in the second and third quarters, still recorded a marginal decline for the first three quarters as a whole. Meanwhile, the secular downtrend in output prices for telecommunications services continued, reflecting technological improvement and intense competition in the sector.

Table 7.4 : Producer Price Indices for the manufacturing sector and selected service sectors
(year-on-year rate of change (%))

	2018					2019			
Industry group	Annual	Q1	Q2	Q3	Q4	Q1-Q3	Q1	Q2	Q3
Manufacturing	2.0	3.8	3.7	*	0.3	1.0	0.7	0.8	1.3
Selected service sectors[(a)]									
Accommodation services	4.4	4.5	4.7	3.9	4.5	-3.5	1.0	-1.5	-9.9
Land transport	1.4	0.7	1.2	2.0	1.5	1.6	2.0	1.6	1.4
Water transport	2.5	3.6	0.6	1.3	4.4	0.5	2.1	-1.4	0.6
Air transport	8.1	9.7	9.6	8.7	4.6	-2.4	-0.7	-2.9	-3.8
Telecommunications	-3.4	-3.5	-2.3	-3.4	-4.7	-2.8	-2.6	-3.8	-2.2
Courier services	-2.5	3.3	3.9	-6.3	-10.3	-0.5	-4.9	0.5	3.1

Notes : (a) Producer Price Indices for other service sectors are not available, due to the difficulties involved in defining and delineating the various types of services and hence in measuring their respective price changes. This is particularly so for such sectors as banking and insurance, where the producers often do not charge their customers explicitly.

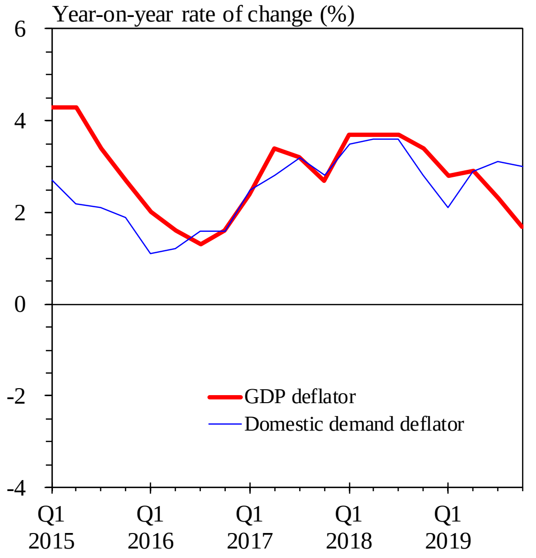
(*) Change within ±0.05%.

GDP deflator

7.7 As a broad measure of the overall change in prices in the economy, the increase in *GDP deflator*[4] moderated from 3.6% in 2018 to 2.4% in 2019. The *terms of trade*[5] deteriorated slightly in 2019, as export prices rose somewhat slower than import prices. Taking out the external trade components, the domestic demand deflator rose by 2.7% in 2019, 0.7 percentage point lower than the corresponding increase in 2018.

Diagram 7.6: GDP deflator

(a) The increase in GDP deflator moderated in 2019



(b) Terms of trade deteriorated slightly in 2019

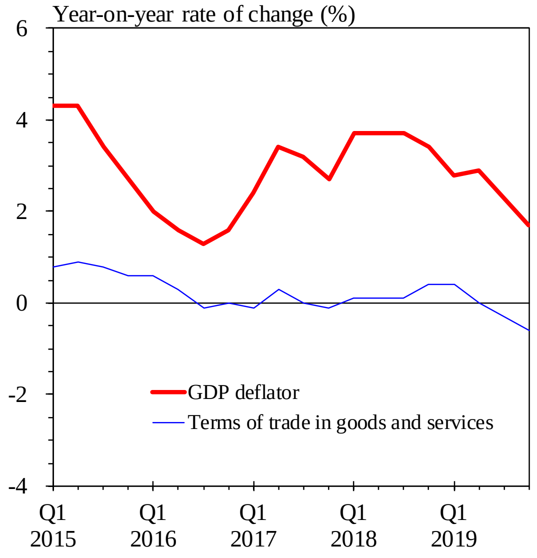


Table 7.5 : GDP deflator and the main expenditure component deflators

(year-on-year rate of change (%))

	2018					2019				
	Annual[#]	Q1[#]	Q2[#]	Q3[#]	Q4[#]	Annual[#]	Q1[#]	Q2[#]	Q3[#]	Q4[#]
Private consumption expenditure	3.1	3.9	3.5	2.8	2.2	2.7	1.9	2.7	3.1	3.0
Government consumption expenditure	3.2	2.0	3.0	3.9	4.0	4.5	4.1	4.6	4.7	4.7
Gross domestic fixed capital formation	4.6	3.2	4.6	6.0	4.5	1.9	1.5	2.6	1.8	1.7
Total exports of goods[&]	2.2	2.7	2.5	2.0	1.7	1.1	1.8	1.4	1.0	0.3
Imports of goods[&]	2.3	2.5	2.6	2.5	1.8	1.3	1.7	1.7	1.3	0.7
Exports of services[&]	4.5	5.0	5.3	5.0	2.9	-0.1	0.8	0.2	-0.7	-0.9
Imports of services[&]	2.8	6.3	4.9	1.2	-0.5	-1.0	-1.9	-1.7	-0.9	0.4
Gross Domestic Product	**3.6**	**3.7** **<1.5>**	**3.7** **<0.9>**	**3.7** **<0.6>**	**3.4** **<0.5>**	**2.4**	**2.8** **<0.6>**	**2.9** **<0.9>**	**2.3** **<0.2>**	**1.7** **<*>**
Total final demand[&]	2.8	3.2	3.2	2.8	2.2	1.5	1.8	1.8	1.5	1.1
Domestic demand	3.4	3.5	3.6	3.6	2.8	2.7	2.1	2.9	3.1	3.0
Terms of trade in goods and services[&]	0.1	0.1	0.1	0.1	0.4	-0.2	0.4	*	-0.3	-0.6

Notes : Figures are derived based on the series of chain volume measures of GDP. They are subject to revision later on as more data become available.

(&) Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

(#) Revised figures.

< > Seasonally adjusted quarter-to-quarter rate of change.

(*) Change within ±0.05%.

Notes :

(1) The Consumer Price Indices (A), (B) and (C) are compiled by reference to the average expenditure patterns for different groups of households as obtained from the Household Expenditure Survey. Then, by aggregating the expenditure patterns of all the households covered by the above three indices, a Composite CPI is compiled.

The expenditure ranges of the households covered in the 2014/15-based CPIs are shown below:

	Approximate proportion of households covered (%)	Average monthly expenditure range during Oct 2014 to Sep 2015 ($)
CPI(A)	50	5,500 to 24,499
CPI(B)	30	24,500 to 44,499
CPI(C)	10	44,500 to 89,999

The weightings of the various components in the 2014/15-based CPIs are as follows:

Expenditure component	Composite CPI (%)	CPI(A) (%)	CPI(B) (%)	CPI(C) (%)
Food	27.29	34.37	26.26	20.85
Meals bought away from home	*17.74*	*20.99*	*17.88*	*13.98*
Other foodstuffs	*9.55*	*13.38*	*8.38*	*6.87*
Housing	34.29	33.77	35.24	33.60
Private housing rent	*29.92*	*26.51*	*32.15*	*30.72*
Public housing rent	*1.94*	*5.44*	*0.49*	--
Maintenance costs and other housing charges	*2.43*	*1.82*	*2.60*	*2.88*
Electricity, gas and water	2.67	3.85	2.38	1.76
Alcoholic drinks and tobacco	0.54	0.75	0.57	0.26
Clothing and footwear	3.21	2.57	3.26	3.88
Durable goods	4.65	3.41	5.03	5.53
Miscellaneous goods	3.56	3.28	3.64	3.77
Transport	7.98	6.75	7.60	9.84
Miscellaneous services	15.81	11.25	16.02	20.51
All items	100.00	100.00	100.00	100.00

(2) The table below presents the year-on-year rates (%) of consumer price inflation in selected economies.

	2018					2019				
	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4
Selected developed economies										
US^	2.1	1.9	2.2	2.2	2.2	2.2	2.1	2.1	2.3	2.3
Canada	2.3	2.1	2.3	2.7	2.0	1.9	1.6	2.1	1.9	2.1
EU	1.9	1.5	1.9	2.2	2.0	1.5	1.6	1.7	1.3	1.3
Japan	1.0	1.3	0.6	1.1	0.9	0.5	0.3	0.8	0.3	0.5
Selected major emerging economies										
Mainland China	2.1	2.1	1.8	2.3	2.2	2.9	1.8	2.6	2.9	4.3
Russia	2.9	2.2	2.4	3.0	3.9	4.5	5.2	5.0	4.3	3.4
India	3.9	4.6	4.8	3.9	2.6	3.7	2.5	3.1	3.5	5.8
Brazil	3.7	2.8	3.3	4.4	4.1	3.7	4.1	4.3	3.2	3.4
Selected Asian economies										
Hong Kong	2.4	2.4	2.1	2.5	2.6	2.9	2.2	3.0	3.3	3.0
Singapore	0.4	0.2	0.3	0.7	0.5	0.6	0.5	0.7	0.4	0.6
Taiwan	1.3	1.6	1.7	1.7	0.5	0.6	0.3	0.8	0.4	0.7
Korea	1.5	1.1	1.5	1.5	1.8	0.4	0.5	0.7	*	0.3
Malaysia	1.0	1.8	1.3	0.5	0.3	0.7	-0.3	0.6	1.3	1.0
Thailand	1.1	0.6	1.3	1.5	0.8	0.7	0.7	1.1	0.6	0.4
Indonesia	3.2	3.3	3.3	3.1	3.2	3.0	2.6	3.1	3.4	2.9
Philippines	5.2	3.9	4.8	6.3	5.9	2.5	3.8	3.0	1.7	1.5
Vietnam	3.5	2.8	3.8	4.1	3.4	2.8	2.6	2.7	2.2	3.7
Macao	3.0	2.5	3.0	3.4	3.1	2.8	2.9	2.7	2.7	2.7

Notes: (*) Change within ±0.05%.
(^) Refer to the core CPI inflation.

(3) The Producer Price Index is designed to reflect changes in the prices of goods and services received by local producers. Producer prices refer to the transacted prices, net of any discounts or rebates allowed to the buyers. Transportation and other incidental charges are not included.

(4) The implicit price deflators of GDP and its main expenditure components are derived by dividing GDP at current prices by the corresponding chained-dollar figures. The rate of change in the GDP deflator may differ substantially from that in the Composite CPI over the same time span. The Composite CPI covers consumer price inflation in particular. Yet the GDP deflator is a much broader measure of inflation for the entire economy, and takes into account all the price changes related to consumption, investment, exports and imports. Also, the rate of change in the GDP deflator may differ appreciably from that in the total final demand deflator, depending on the movement in the prices of final demand and imports. Likewise, the rate of change in the GDP deflator may differ appreciably from that in the domestic demand deflator, depending on the movement in the prices of imports and exports.

(5) The terms of trade is defined as the ratio of the prices of total exports to the prices of total imports.

Statistical Appendix

Table 1 : Gross Domestic Product by expenditure component (at current market prices)

($Mn)

	2010	2011	2012	2013	2014	2015
Private consumption expenditure	1,090,234	1,224,402	1,314,969	1,413,058	1,502,768	1,593,091
Government consumption expenditure	157,371	168,517	185,310	198,572	214,216	231,263
Gross domestic fixed capital formation	386,852	455,294	517,411	515,516	530,916	537,205
Building and construction	139,249	179,341	204,860	211,130	244,047	262,780
Costs of ownership transfer	38,035	36,099	34,074	39,389	43,967	45,846
Machinery, equipment and intellectual property products	209,568	239,854	278,477	264,997	242,902	228,579
Changes in inventories	37,522	11,739	-3,662	-1,673	7,473	-20,580
Total exports of goods[&]	3,021,492	3,406,765	3,632,957	3,926,059	3,986,769	3,889,225
Imports of goods[&]	2,995,928	3,464,968	3,779,686	4,142,651	4,237,700	4,066,527
Exports of services[&]	625,719	710,716	764,026	812,640	829,085	808,948
Imports of services[&]	546,930	578,035	594,266	583,216	573,522	574,345
GDP	**1,776,332**	**1,934,430**	**2,037,059**	**2,138,305**	**2,260,005**	**2,398,280**
Per capita GDP ($)	***252,887***	***273,549***	***284,899***	***297,860***	***312,609***	***328,924***
GNI	**1,813,928**	**1,987,256**	**2,066,514**	**2,178,824**	**2,306,612**	**2,442,656**
Per capita GNI ($)	***258,240***	***281,019***	***289,019***	***303,504***	***319,056***	***335,010***
Total final demand	5,319,190	5,977,433	6,411,011	6,864,172	7,071,227	7,039,152
Total final demand excluding re-exports[(a)]	3,235,971	3,604,705	3,828,055	4,025,243	4,116,670	4,139,786
Domestic demand	1,671,979	1,859,952	2,014,028	2,125,473	2,255,373	2,340,979
Private	1,449,592	1,614,010	1,737,274	1,827,460	1,929,514	1,991,436
Public	222,387	245,942	276,754	298,013	325,859	349,543
External demand	3,647,211	4,117,481	4,396,983	4,738,699	4,815,854	4,698,173

Definition of Terms :

Total final demand	=	private consumption expenditure + government consumption expenditure + gross domestic fixed capital formation + changes in inventories + total exports of goods + exports of services
Private sector domestic demand	=	private consumption expenditure + gross domestic fixed capital formation by the private sector + changes in inventories
Public sector domestic demand	=	government consumption expenditure + gross domestic fixed capital formation by the public sector
Domestic demand	=	private sector domestic demand + public sector domestic demand
External demand	=	total exports of goods + exports of services

Table 1 : Gross Domestic Product by expenditure component (at current market prices) (Cont'd)

($Mn)

	2016	2017	2018#	2019#	2019 Q1#	2019 Q2#	2019 Q3#	2019 Q4#
Private consumption expenditure	1,649,941	1,784,148	1,936,124	1,965,880	486,530	507,175	470,425	501,750
Government consumption expenditure	247,973	261,447	281,413	309,054	77,799	73,496	78,051	79,708
Gross domestic fixed capital formation	535,216	575,977	612,451	547,055	138,331	138,381	135,810	134,533
Building and construction	283,447	297,306	308,615	294,869	79,989	68,310	72,582	73,988
Costs of ownership transfer	44,517	65,810	67,482	50,021	11,031	17,801	10,664	10,525
Machinery, equipment and intellectual property products	207,252	212,861	236,354	202,165	47,311	52,270	52,564	50,020
Changes in inventories	447	10,973	11,204	-4,653	-5,607	-1,521	-694	3,169
Total exports of goods&	3,892,886	4,212,774	4,453,350	4,291,269	998,562	1,023,952	1,114,279	1,154,476
Imports of goods&	4,022,579	4,391,306	4,706,347	4,415,270	1,064,767	1,095,886	1,114,117	1,140,500
Exports of services&	764,660	811,295	886,883	793,921	229,934	202,921	189,973	171,093
Imports of services&	578,106	605,924	639,947	619,085	152,340	152,666	154,206	159,873
GDP	**2,490,438**	**2,659,384**	**2,835,131**	**2,868,171**	**708,442**	**695,852**	**719,521**	**744,356**
Per capita GDP ($)	***339,454***	***359,780***	***380,503***	***382,046***	--	--	--	--
GNI	**2,553,031**	**2,774,936**	**2,969,946**	**N.A.**	**731,448**	**756,871**	**760,795**	**N.A.**
Per capita GNI ($)	***347,986***	***375,412***	***398,597***	***N.A.***	--	--	--	--
Total final demand	7,091,123	7,656,614	8,181,425	7,902,526	1,925,549	1,944,404	1,987,844	2,044,729
Total final demand excluding re-exports(a)	4,190,526	4,496,245	4,819,256	4,674,204	1,179,695	1,160,336	1,149,955	1,184,218
Domestic demand	2,433,577	2,632,545	2,841,192	2,817,336	697,053	717,531	683,592	719,160
Private	2,062,056	2,240,260	2,425,248	2,374,031	576,027	618,218	573,171	606,615
Public	371,521	392,285	415,944	443,305	121,026	99,313	110,421	112,545
External demand	4,657,546	5,024,069	5,340,233	5,085,190	1,228,496	1,226,873	1,304,252	1,325,569

Notes: (a) Re-export margin is nevertheless retained in the total final demand.

(#) Figures are subject to revision later on as more data become available.

(&) Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

(--) Not applicable.

N.A. Not yet available.

Table 2 : Rates of change in chain volume measures of Gross Domestic Product by expenditure component (in real terms)

(%)

	2010	2011	2012	2013	2014	2015
Private consumption expenditure	6.1	8.4	4.1	4.6	3.3	4.8
Government consumption expenditure	3.4	2.5	3.6	2.7	3.1	3.4
Gross domestic fixed capital formation	7.7	10.2	6.8	2.6	-0.1	-3.2
Building and construction	5.7	15.7	7.2	-4.3	9.3	2.2
Costs of ownership transfer	27.2	-20.9	-17.8	-28.1	6.9	-8.3
Machinery, equipment and intellectual property products	6.5	12.3	10.2	11.3	-8.7	-7.7
Total exports of goods[&]	18.0	4.6	3.3	8.2	0.8	-1.7
Imports of goods[&]	19.9	6.7	4.6	9.9	1.5	-2.7
Exports of services[&]	15.3	5.7	2.7	6.0	1.6	0.3
Imports of services[&]	10.0	-0.2	2.2	-2.1	-2.2	5.0
GDP	**6.8**	**4.8**	**1.7**	**3.1**	**2.8**	**2.4**
Per capita GDP	***6.0***	***4.1***	***0.6***	***2.7***	***2.0***	***1.5***
RGNI	**3.7**	**4.8**	**-0.2**	**4.0**	**2.7**	**3.8**
Per capita RGNI	***2.9***	***4.1***	***-1.3***	***3.6***	***1.9***	***2.9***
Total final demand	14.0	5.3	3.4	6.6	1.6	-0.4
Total final demand excluding re-exports[(a)]	11.0	4.7	3.2	4.2	0.6	0.1
Domestic demand	7.1	6.5	3.9	4.1	2.9	1.6
Private	6.6	6.7	3.6	4.1	2.6	1.3
Public	10.2	5.5	5.8	3.7	4.6	2.9
External demand	17.6	4.8	3.2	7.8	1.0	-1.4

Notes:
(a) Re-export margin is nevertheless retained in the total final demand.
(#) Figures are subject to revision later on as more data become available.
(&) Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.
(--) Not applicable.
N.A. Not yet available.
(^) Average annual rate of change for the 10-year period 2008-2018.
(~) Average annual rate of change for the 5-year period 2013-2018.

Table 2 : Rates of change in chain volume measures of Gross Domestic Product by expenditure component (in real terms) (Cont'd)

(%)

	2016	2017	2018#	2019#	2019 Q1#	2019 Q2#	2019 Q3#	2019 Q4#	Average annual rate of change: 10 years 2009 to 2019#	Average annual rate of change: 5 years 2014 to 2019#
Private consumption expenditure	2.0	5.5	5.3	-1.1	0.6	1.2	-3.3	-2.9	4.3	3.3
Government consumption expenditure	3.4	2.8	4.3	5.1	4.5	3.9	5.9	6.0	3.4	3.8
Gross domestic fixed capital formation	-0.1	3.1	1.7	-12.3	-5.4	-11.4	-15.2	-16.7	1.5	-2.3
Building and construction	5.9	-0.5	-0.5	-6.1	-4.2	-10.4	-3.7	-6.2	3.3	0.1
Costs of ownership transfer	-2.9	23.2	-11.2	-13.2	-20.3	-13.0	-21.8	7.2	-6.0	-3.3
Machinery, equipment and intellectual property products	-6.4	3.8	8.8	-20.0	-1.9	-12.2	-26.4	-32.2	0.4	-4.8
Total exports of goods&	1.6	6.5	3.5	-4.7	-3.7	-5.3	-6.9	-2.7	3.8	0.9
Imports of goods&	0.7	7.3	4.7	-7.4	-4.2	-6.7	-11.0	-7.3	4.3	0.4
Exports of services&	-3.5	2.8	4.6	-10.4	-0.4	-1.3	-14.4	-24.7	2.3	-1.4
Imports of services&	2.0	2.0	2.7	-2.3	-1.1	1.7	-4.4	-4.9	1.7	1.9
GDP	**2.2**	**3.8**	**2.9**	**-1.2**	**0.7**	**0.4**	**-2.8**	**-2.9**	**2.9**	**2.0**
Per capita GDP	***1.5***	***3.0***	***2.0***	***-1.9***	--	--	--	--	***2.1***	***1.2***
RGNI	**3.2**	**5.7**	**3.5**	**N.A.**	**1.8**	**0.9**	**-3.4**	**N.A.**	**2.6**^	**3.8**~
Per capita RGNI	***2.6***	***4.9***	***2.7***	***N.A.***	--	--	--	--	***1.9***^	***3.0***~
Total final demand	1.3	5.6	3.9	-4.9	-2.2	-3.7	-7.7	-5.6	3.5	1.0
Total final demand excluding re-exports(a)	1.5	4.5	4.0	-4.8	-0.3	-2.5	-8.1	-7.9	2.8	1.0
Domestic demand	2.6	5.2	4.4	-3.5	-0.6	-1.9	-7.1	-4.3	3.4	2.0
Private	2.5	5.7	4.8	-4.5	-1.4	-1.6	-9.0	-5.6	3.3	1.9
Public	3.1	2.2	2.4	2.2	3.7	-3.3	4.6	3.5	4.2	2.6
External demand	0.7	5.8	3.7	-5.6	-3.1	-4.7	-8.1	-6.2	3.6	0.6

Table 3 : Gross Domestic Product by economic activity (at current prices)

	2014 $Mn	2014 % share	2015 $Mn	2015 % share	2016 $Mn	2016 % share	2017 $Mn	2017 % share	2018# $Mn	2018# % share
Agriculture, fishing, mining and quarrying	1,496	0.1	1,630	0.1	1,898	0.1	1,736	0.1	1,762	0.1
Manufacturing	27,885	1.3	26,716	1.1	26,844	1.1	27,299	1.1	27,700	1.0
Electricity, gas and water supply, and waste management	35,636	1.6	34,653	1.5	34,414	1.4	34,978	1.4	35,513	1.3
Construction	96,205	4.4	107,902	4.6	124,932	5.2	129,714	5.1	120,958	4.5
Services	2,044,750	92.7	2,154,541	92.7	2,229,760	92.2	2,357,363	92.4	2,512,905	93.1
Import/export, wholesale and retail trades	*531,541*	*24.1*	*527,822*	*22.7*	*525,526*	*21.7*	*548,636*	*21.5*	*577,000*	*21.4*
Accommodation [(a)] and food services	*78,725*	*3.6*	*78,134*	*3.4*	*79,682*	*3.3*	*83,507*	*3.3*	*91,345*	*3.4*
Transportation, storage, postal and courier services	*137,658*	*6.2*	*150,073*	*6.5*	*149,742*	*6.2*	*153,359*	*6.0*	*158,494*	*5.9*
Information and communications	*77,761*	*3.5*	*80,813*	*3.5*	*84,208*	*3.5*	*86,891*	*3.4*	*91,485*	*3.4*
Financing and insurance	*367,989*	*16.7*	*409,933*	*17.6*	*428,903*	*17.7*	*480,488*	*18.8*	*532,757*	*19.7*
Real estate, professional and business services	*239,434*	*10.9*	*252,714*	*10.9*	*266,139*	*11.0*	*274,822*	*10.8*	*280,895*	*10.4*
Public administration, social and personal services	*379,588*	*17.2*	*407,405*	*17.5*	*436,912*	*18.1*	*465,492*	*18.2*	*497,623*	*18.4*
Ownership of premises	*232,053*	*10.5*	*247,648*	*10.6*	*258,649*	*10.7*	*264,166*	*10.4*	*283,307*	*10.5*
GDP at basic prices	**2,205,972**	**100.0**	**2,325,443**	**100.0**	**2,417,849**	**100.0**	**2,551,090**	**100.0**	**2,698,838**	**100.0**
Taxes on products	83,236	--	95,433	--	83,743	--	110,698	--	118,131	--
Statistical discrepancy (%)	-1.3	--	-0.9	--	-0.4	--	-0.1	--	0.6	--
GDP at current market prices	**2,260,005**	**--**	**2,398,280**	**--**	**2,490,438**	**--**	**2,659,384**	**--**	**2,835,131**	**--**

Notes: Individual figures may not add up exactly to the total due to rounding.

(a) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

(#) Figures are subject to revision later on as more data become available.

(--) Not applicable.

Table 4 : Rates of change in chain volume measures of Gross Domestic Product by economic activity (in real terms)

(%)

	2013	2014	2015	2016	2017	2018#	2018	2019		
							Q4#	Q1#	Q2#	Q3#
Agriculture, fishing, mining and quarrying	4.9	-6.0	-6.8	-2.0	-5.2	-1.8	1.9	0.9	0.8	-2.7
Manufacturing	0.1	-0.4	-1.5	-0.4	0.4	1.3	1.2	1.4	0.4	0.5
Electricity, gas and water supply, and waste management	-2.9	0.8	-2.6	-0.8	0.9	0.1	-0.8	-0.6	-1.1	1.7
Construction	4.2	13.0	5.4	5.1	-1.3	3.3	-2.6	-3.6	-10.8	-3.1
Services	2.7	2.5	1.7	2.3	3.5	3.1	2.1	1.8	1.2	-1.7
Import/export, wholesale and retail trades	*3.3*	*1.2*	*-1.1*	*0.6*	*4.2*	*4.2*	*1.6*	*-1.2*	*-3.7*	*-10.0*
Accommodation[(a)] and food services	*3.6*	*2.2*	*-1.9*	*0.5*	*2.0*	*5.9*	*2.7*	*2.8*	*-1.3*	*-13.8*
Transportation, storage, postal and courier services	*4.1*	*2.9*	*3.3*	*3.0*	*4.8*	*2.5*	*2.5*	*2.3*	*1.9*	*-2.2*
Information and communications	*4.0*	*3.9*	*4.0*	*4.1*	*4.0*	*4.1*	*5.4*	*4.9*	*5.7*	*5.5*
Financing and insurance	*7.7*	*5.3*	*6.1*	*4.2*	*5.3*	*4.0*	*2.8*	*2.6*	*3.1*	*3.3*
Real estate, professional and business services	*-4.0*	*1.9*	*0.7*	*2.8*	*2.1*	*-0.4*	*-1.1*	*1.9*	*2.0*	*0.4*
Public administration, social and personal services	*2.5*	*2.4*	*2.5*	*3.0*	*3.2*	*3.6*	*3.8*	*3.6*	*3.6*	*2.0*
Ownership of premises	*0.3*	*0.8*	*0.6*	*0.5*	*1.0*	*0.9*	*0.9*	*1.1*	*0.9*	*0.8*
Taxes on products	-6.4	6.7	7.1	-9.1	13.7	-3.9	-27.1	-18.3	-8.2	-16.4
GDP in chained (2017) dollars	**3.1**	**2.8**	**2.4**	**2.2**	**3.8**	**2.9**	**1.1**	**0.7**	**0.4**	**-2.8**

Notes: (#) Figures are subject to revision later on as more data become available.

(a) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

Table 5 : Value added and employment statistics of the Four Key Industries and other selected industries

	2015		2016		2017		2018#		Annual percentage change (%)		
	$Bn	% share in total(1)	$Bn	% share in total(1)	$Bn	% share in total(1)	$Bn	% share in total(1)	2016	2017	2018#
Value added at current prices											
Four Key Industries	*1,330.9*	*57.2*	*1,367.3*	*56.6*	*1,454.9*	*57.0*	*1,547.6*	*57.3*	*2.7*	*6.4*	*6.4*
Financial services	409.9	17.6	428.9	17.7	480.5	18.8	532.8	19.7	4.6	12.0	10.9
Tourism	116.4	5.0	112.4	4.7	114.2	4.5	121.0	4.5	-3.4	1.6	5.9
Trading and logistics	517.4	22.3	523.1	21.6	548.4	21.5	571.0	21.2	1.1	4.8	4.1
Professional services and other producer services(2)	287.2	12.3	302.9	12.5	311.8	12.2	322.8	12.0	5.5	2.9	3.5
Other selected industries (3)	*207.5*	*8.9*	*214.6*	*8.9*	*226.1*	*8.9*	*240.3*	*8.9*	*3.4*	*5.4*	*6.3*
Cultural and creative industries	108.9	4.7	109.6	4.5	111.8	4.4	117.9	4.4	0.6	2.0	5.5
Medical services	38.9	1.7	42.1	1.7	46.9	1.8	49.8	1.8	8.2	11.4	6.3
Education services	28.1	1.2	30.1	1.2	32.4	1.3	34.9	1.3	7.3	7.4	8.0
Innovation and technology	16.7	0.7	17.1	0.7	18.3	0.7	20.3	0.8	2.2	7.1	10.9
Testing and certification services	7.0	0.3	7.3	0.3	7.5	0.3	7.7	0.3	4.4	2.6	2.1
Environmental industries	7.9	0.3	8.4	0.3	9.3	0.4	9.6	0.4	6.7	10.8	3.3
Nominal GDP at basic prices	**2,325.4**	**100.0**	**2,417.8**	**100.0**	**2,551.1**	**100.0**	**2,698.8**	**100.0**	**4.0**	**5.5**	**5.8**

Notes: Individual figures may not add up exactly to the total due to rounding.

(1) Refers to percentage share in nominal GDP at basic prices. Such GDP figure is slightly different from the commonly used one, i.e. valued at current market prices, in which taxes on products are included.

(2) Other producer services refer to producer services other than financial services, tourism, trading and logistics and professional services.

(3) The other selected industries reflect the direct contribution of these industries in the private sector only. Some of them are service domains straddling across different industries. For example, “innovation and technology” activities may exist in any industry and organisation. The term “industry” is used to denote the aggregate of the economic activities concerned for easy general understanding.

(4) Since innovation and technology involves significant non-routine activities, persons engaged in these activities are measured by the volume of labour input to innovation and technology in full-time equivalent terms (in terms of man-years).

(5) Figures refer to Composite Employment Estimates.

(#) Figures are subject to revision later on as more data become available.

Table 5 : Value added and employment statistics of the Four Key Industries and other selected industries (Cont'd)

	2015		2016		2017		2018#		Annual percentage change (%)		
	Number ('000)	% share in total	Number ('000)	% share in total	Number ('000)	% share in total	Number ('000)	% share in total	2016	2017	2018#
Employment											
Four Key Industries	*1 781.1*	*47.2*	*1 775.3*	*46.9*	*1 780.2*	*46.6*	*1 789.5*	*46.3*	*-0.3*	*0.3*	*0.5*
Financial services	246.7	6.5	253.1	6.7	258.5	6.8	263.0	6.8	2.6	2.1	1.7
Tourism	265.9	7.0	259.8	6.9	257.1	6.7	256.9	6.6	-2.3	-1.0	-0.1
Trading and logistics	746.9	19.8	730.7	19.3	727.5	19.0	718.6	18.6	-2.2	-0.4	-1.2
Professional services and other producer services(2)	521.7	13.8	531.8	14.0	537.2	14.0	551.0	14.2	1.9	1.0	2.6
Other selected industries (3)	*475.1*	*12.6*	*480.9*	*12.7*	*493.1*	*12.9*	*501.5*	*13.0*	*1.2*	*2.5*	*1.7*
Cultural and creative industries	213.9	5.7	212.8	5.6	213.4	5.6	217.3	5.6	-0.5	0.3	1.8
Medical services	89.5	2.4	91.4	2.4	98.6	2.6	99.9	2.6	2.2	7.8	1.4
Education services	79.3	2.1	82.6	2.2	85.8	2.2	87.1	2.3	4.1	3.9	1.5
Innovation and technology(4)	35.1	0.9	35.8	0.9	37.0	1.0	38.8	1.0	2.1	3.2	4.8
Testing and certification services	13.6	0.4	14.0	0.4	14.3	0.4	14.6	0.4	2.8	2.4	2.2
Environmental industries	43.8	1.2	44.3	1.2	44.1	1.2	43.8	1.1	1.3	-0.5	-0.6
Total employment(5)	**3 774.5**	**100.0**	**3 787.8**	**100.0**	**3 823.9**	**100.0**	**3 867.6**	**100.0**	**0.4**	**1.0**	**1.1**

Table 6 : Balance of Payments by major component (at current prices)

($Mn)

	2014	2015	2016	2017	2018[#]	2018 Q4[#]	2019 Q1[#]	2019 Q2[#]	2019 Q3[#]
Current account[(a)]	31,453	79,553	98,485	121,840	105,942	36,311	29,254	34,227	71,867
Goods	-250,931	-177,302	-129,693	-178,532	-252,997	-38,109	-66,205	-71,934	162
Services	255,563	234,603	186,554	205,371	246,936	61,842	77,594	50,255	35,767
Primary income	46,607	44,376	62,593	115,552	134,815	17,935	23,006	61,019	41,274
Secondary income	-19,786	-22,124	-20,969	-20,551	-22,813	-5,357	-5,141	-5,113	-5,336
Capital and financial account[(a)]	-73,785	-128,642	-101,104	-76,488	-175,081	-62,664	-5,018	-66,571	-103,753
Capital account	-748	-216	-374	-645	-1,574	-469	-242	-155	-115
Financial account	-73,037	-128,426	-100,730	-75,843	-173,507	-62,195	-4,777	-66,416	-103,638
Financial non-reserve assets	66,052	153,570	-91,874	174,666	-165,948	-38,196	28,182	-38,101	-163,484
Direct investment	*-85,718*	*794,800*	*447,758*	*186,887*	*172,795*	*33,376*	*-72,323*	*75,834*	*5,613*
Portfolio investment	*-64,384*	*-970,938*	*-469,591*	*264,159*	*-616,428*	*-138,744*	*-222,922*	*-34,190*	*-89,970*
Financial derivatives	*118,359*	*99,178*	*36,327*	*61,763*	*33,202*	*13,982*	*8,608*	*546*	*-4,089*
Other investment	*97,795*	*230,531*	*-106,368*	*-338,144*	*244,483*	*53,190*	*314,819*	*-80,291*	*-75,037*
Reserve assets	-139,089	-281,996	-8,856	-250,509	-7,559	-23,999	-32,959	-28,315	59,846
Net errors and omissions	42,332	49,089	2,619	-45,353	69,139	26,353	-24,236	32,345	31,887
Overall Balance of Payments	**139,089**	**281,996**	**8,856**	**250,509**	**7,559**	**23,999**	**32,959**	**28,315**	**-59,846**

Notes: Individual figures may not add up exactly to the total due to rounding.

(a) In accordance with the accounting rules adopted in compiling Balance of Payments, a positive value for the balance figure in the current account represents a surplus whereas a negative value represents a deficit. In the capital and financial account, a positive value indicates a net financial inflow while a negative value indicates a net outflow. As increases in external assets are debit entries and decreases are credit entries, a negative value for the reserve assets represents a net increase while a positive value represents a net decrease.

(#) Figures are subject to revision later on as more data become available.

Table 7 : Goods and services trade
(at current market prices)

($Mn)

	2015	2016	2017	2018[#]	2019[#]	2019			
						Q1[#]	Q2[#]	Q3[#]	Q4[#]
Total exports of goods	3,889,225	3,892,886	4,212,774	4,453,350	4,291,269	998,562	1,023,952	1,114,279	1,154,476
Imports of goods	4,066,527	4,022,579	4,391,306	4,706,347	4,415,270	1,064,767	1,095,886	1,114,117	1,140,500
Goods trade balance	**-177,302**	**-129,693**	**-178,532**	**-252,997**	**-124,001**	**-66,205**	**-71,934**	**162**	**13,976**
	(-4.4)	**(-3.2)**	**(-4.1)**	**(-5.4)**	**(-2.8)**	**(-6.2)**	**(-6.6)**	**(*)**	**(1.2)**
Exports of services	808,948	764,660	811,295	886,883	793,921	229,934	202,921	189,973	171,093
Imports of services	574,345	578,106	605,924	639,947	619,085	152,340	152,666	154,206	159,873
Services trade balance	**234,603**	**186,554**	**205,371**	**246,936**	**174,836**	**77,594**	**50,255**	**35,767**	**11,220**
	(40.8)	**(32.3)**	**(33.9)**	**(38.6)**	**(28.2)**	**(50.9)**	**(32.9)**	**(23.2)**	**(7.0)**
Exports of goods and services	4,698,173	4,657,546	5,024,069	5,340,233	5,085,190	1,228,496	1,226,873	1,304,252	1,325,569
Imports of goods and services	4,640,872	4,600,685	4,997,230	5,346,294	5,034,355	1,217,107	1,248,552	1,268,323	1,300,373
Goods and services trade balance	**57,301**	**56,861**	**26,839**	**-6,061**	**50,835**	**11,389**	**-21,679**	**35,929**	**25,196**
	<1.2>	**<1.2>**	**<0.5>**	**<-0.1>**	**<1.0>**	**<0.9>**	**<-1.7>**	**<2.8>**	**<1.9>**

Notes: Figures in this table are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

(#) Figures are subject to revision later on as more data become available.

( ) As a percentage of the total value of imports of goods/services.

< > As a percentage of the total value of imports of goods and services.

(*) Within ±0.05%.

Table 7a : Goods and services trade based on the standards stipulated in the *System of National Accounts 2008* , other than the change of ownership principle

	2015	2016	2017	2018#	2019#	2019			
						Q1#	Q2#	Q3#	Q4#
At current market prices ($Mn)									
Total exports of goods	3,779,263	3,776,638	4,055,437	4,289,167	4,096,115	957,823	991,475	1,056,447	1,090,370
Imports of goods	4,289,991	4,240,000	4,586,052	4,911,101	4,571,448	1,103,590	1,138,507	1,149,576	1,179,775
Goods trade balance	**-510,728**	**-463,362**	**-530,615**	**-621,934**	**-475,333**	**-145,767**	**-147,032**	**-93,129**	**-89,405**
	(-11.9)	**(-10.9)**	**(-11.6)**	**(-12.7)**	**(-10.4)**	**(-13.2)**	**(-12.9)**	**(-8.1)**	**(-7.6)**
Exports of services	1,052,355	1,010,137	1,072,065	1,162,639	1,063,998	289,633	258,337	262,623	253,405
Imports of services	484,326	489,914	514,611	546,766	537,830	132,477	132,984	133,565	138,804
Services trade balance	**568,029**	**520,223**	**557,454**	**615,873**	**526,168**	**157,156**	**125,353**	**129,058**	**114,601**
	(117.3)	**(106.2)**	**(108.3)**	**(112.6)**	**(97.8)**	**(118.6)**	**(94.3)**	**(96.6)**	**(82.6)**
Exports of goods and services	4,831,618	4,786,775	5,127,502	5,451,806	5,160,113	1,247,456	1,249,812	1,319,070	1,343,775
Imports of goods and services	4,774,317	4,729,914	5,100,663	5,457,867	5,109,278	1,236,067	1,271,491	1,283,141	1,318,579
Goods and services trade balance	**57,301**	**56,861**	**26,839**	**-6,061**	**50,835**	**11,389**	**-21,679**	**35,929**	**25,196**
	<1.2>	**<1.2>**	**<0.5>**	**<-0.1>**	**<1.0>**	**<0.9>**	**<-1.7>**	**<2.8>**	**<1.9>**
Rates of change in real terms (%)									
Total exports of goods	-1.9	1.4	5.6	3.5	-5.6	-4.7	-6.5	-8.0	-3.0
Imports of goods	-2.7	0.6	6.2	4.6	-8.1	-5.1	-7.7	-11.8	-7.6
Exports of services	-0.3	-2.1	3.1	4.3	-8.6	-0.6	-1.8	-11.8	-18.7
Imports of services	5.3	2.4	2.9	3.5	-0.6	-0.1	4.5	-2.4	-3.7

Notes: (#) Figures are subject to revision later on as more data become available.

( ) As a percentage of the total value of imports of goods/services.

< > As a percentage of the total value of imports of goods and services.

Table 8 : Total exports of goods by market (in value terms)

	2015	2016	2017	2018	2019		2019			
							Q1	Q2	Q3	Q4
	(% change)				(% change)	($Mn)	(% change over a year earlier)			
All markets	**-1.8**	**-0.5**	**8.0**	**7.3**	**-4.1**	**3,988,685**	**-2.4**	**-4.7**	**-6.4**	**-2.5**
Mainland of China	-2.1	0.4	8.4	8.6	-3.3	2,210,854	-6.6	-5.3	-5.6	3.9
United States	0.2	-5.3	1.9	8.1	-14.8	304,004	-8.5	-13.3	-14.1	-22.3
Japan	-6.6	-4.9	10.0	0.7	-6.4	121,012	-3.2	-5.9	-2.7	-13.4
India	8.1	14.6	35.9	-15.3	-12.0	118,186	-28.4	-3.0	-12.6	-1.0
Taiwan	-18.0	14.6	19.9	-3.6	2.4	88,275	-11.3	-5.2	21.3	8.3
Vietnam	14.7	-5.8	10.3	4.5	-3.6	80,213	0.1	-5.8	-2.9	-5.5
Singapore	-2.3	4.8	-0.4	13.3	4.1	71,999	17.7	5.3	-3.9	-0.7
Germany	-3.2	-5.1	10.8	3.0	-8.9	69,340	0.2	-12.5	-6.6	-15.5
Netherlands	10.2	10.3	11.5	11.5	-4.4	68,169	11.8	-2.3	-11.3	-11.2
Korea	-12.8	-0.6	4.9	2.1	-2.3	56,555	3.4	8.5	-7.4	-11.7
Rest of the world	-1.8	-3.3	3.8	10.8	-0.8	800,079	14.9	-0.2	-7.1	-8.2

Note: Individual figures may not add up exactly to the total due to rounding.

Table 9 : Imports of goods by source (in value terms)

	2015	2016	2017	2018	2019		2019 Q1	Q2	Q3	Q4
		(% change)			(% change)	($Mn)	(% change over a year earlier)			
All sources	**-4.1**	**-0.9**	**8.7**	**8.4**	**-6.5**	**4,415,440**	**-3.2**	**-5.7**	**-10.1**	**-6.5**
Mainland of China	-0.1	-3.4	5.9	7.7	-5.9	2,058,091	-0.4	-3.9	-8.7	-9.2
Taiwan	-8.6	6.4	12.9	2.7	-2.4	330,454	-16.9	-4.7	-0.4	13.4
Singapore	-5.7	6.4	10.1	9.0	-7.5	290,657	0.5	-8.6	-16.2	-3.9
Japan	-9.9	-5.2	2.7	2.6	-2.8	252,601	-3.4	-6.1	-1.9	*
Korea	-2.0	14.0	28.5	10.4	-20.9	220,071	-23.4	-27.7	-24.1	-6.9
United States	-3.9	-2.0	3.4	8.1	-7.9	212,902	5.4	-1.5	-13.3	-19.2
Malaysia	-7.9	-3.7	26.8	64.6	-14.3	162,002	-8.2	-9.9	-28.9	-9.0
Thailand	-3.7	-2.7	8.5	2.8	-7.4	85,267	-13.6	-3.2	-13.2	0.5
Vietnam	19.8	6.6	13.6	7.3	18.5	78,373	1.3	9.4	13.1	44.3
India	-13.7	11.9	15.8	-14.0	-19.0	74,805	-14.7	-20.4	-23.6	-17.4
Rest of the world	-11.0	-3.1	8.5	9.3	-3.4	650,218	4.0	-0.5	-7.0	-9.7

Notes: Individual figures may not add up exactly to the total due to rounding.
(*) Change within ±0.05%.

Table 10 : Exports and imports of services by component (at current market prices)

	2015	2016	2017	2018#	2019#		2019			
							Q1#	Q2#	Q3#	Q4#
		(% change)			(% change)	($Mn)	(% change over a year earlier)			
Exports of services	**-2.4**	**-5.5**	**6.1**	**9.3**	**-10.5**	**793,921**	**0.4**	**-1.1**	**-15.0**	**-25.4**
Transport	-6.8	-5.3	8.6	9.0	-8.7	236,255	0.3	-4.1	-12.4	-17.9
Travel	-5.8	-9.0	1.9	11.2	-21.3	227,557	3.4	1.7	-31.8	-54.1
Financial services	8.5	-6.9	13.5	10.9	-3.5	167,910	-3.4	-1.8	-5.3	-3.3
Other services	1.6	2.3	2.9	5.1	-1.7	162,199	*	0.1	-3.2	-3.5
Imports of services	**0.1**	**0.7**	**4.8**	**5.6**	**-3.3**	**619,085**	**-2.9**	**-0.1**	**-5.3**	**-4.5**
Transport	-5.9	-2.1	3.7	6.6	-4.6	138,595	-3.0	-1.8	-5.6	-7.8
Travel	4.7	4.8	5.6	4.7	0.8	208,984	-4.4	6.7	0.1	1.0
Manufacturing^	-2.7	-2.0	3.5	2.0	-12.8	81,255	-7.7	-13.9	-15.9	-13.1
Other services	2.2	-0.1	5.5	7.6	-2.1	190,251	0.7	0.7	-5.4	-3.8

Notes: Individual figures may not add up exactly to the total due to rounding.

Figures in this table are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

(#) Figures are subject to revision later on as more data become available.

(^) This includes the value of processing fees paid by Hong Kong to the processing units outside Hong Kong and raw materials / semi-manufactures directly procured by these processing units.

(*) Change within ±0.05%.

Table 10a : Exports and imports of services by component based on the standards stipulated in the *System of National Accounts 2008* , other than the change of ownership principle (at current market prices)

	2015	2016	2017	2018#	2019#		2019 Q1#	Q2#	Q3#	Q4#
		(% change)			(% change)	($Mn)	(% change over a year earlier)			
Exports of services	**-2.6**	**-4.0**	**6.1**	**8.4**	**-8.5**	**1,063,998**	**0.5**	**-1.2**	**-12.1**	**-19.3**
Transport	-6.8	-5.3	8.6	9.0	-8.7	236,255	0.3	-4.1	-12.4	-17.9
Travel	-5.8	-9.0	1.9	11.2	-21.3	227,557	3.4	1.7	-31.8	-54.1
Trade-related	-3.0	0.6	5.8	5.4	-2.2	311,419	0.4	-1.5	-3.5	-3.2
Other services	6.4	-2.5	8.7	8.7	-2.6	288,767	-1.9	-0.9	-4.3	-3.3
Imports of services	**0.7**	**1.2**	**5.0**	**6.2**	**-1.6**	**537,830**	**-2.2**	**2.4**	**-3.4**	**-3.1**
Transport	-5.9	-2.1	3.7	6.6	-4.6	138,595	-3.0	-1.8	-5.6	-7.8
Travel	4.7	4.8	5.6	4.7	0.8	208,984	-4.4	6.7	0.1	1.0
Trade-related	0.1	-0.9	2.9	5.3	-6.6	33,829	-1.0	-5.9	-8.9	-9.3
Other services	2.7	0.1	6.1	8.2	-1.0	156,422	1.1	2.2	-4.5	-2.5

Notes: Individual figures may not add up exactly to the total due to rounding.

(#) Figures are subject to revision later on as more data become available.

Table 11 : Incoming visitors by source

	2015	2016	2017	2018	2019	2019 Q1	Q2	Q3	Q4
('000)									
All sources	**59 307.6**	**56 654.9**	**58 472.2**	**65 147.6**	**55 912.6**	**18 234.4**	**16 637.5**	**11 891.6**	**9 149.2**
Mainland of China	45 842.4	42 778.1	44 445.3	51 038.2	43 774.7	14 582.2	12 991.3	9 356.0	6 845.1
South and Southeast Asia	3 559.1	3 701.8	3 626.2	3 571.7	3 040.5	871.9	1 028.5	555.0	585.2
Taiwan	2 015.8	2 011.4	2 010.8	1 925.2	1 538.9	464.9	459.1	354.8	260.2
Europe	1 829.4	1 904.9	1 901.5	1 937.6	1 728.4	486.8	462.7	359.3	419.7
United States	1 181.0	1 211.5	1 215.6	1 304.2	1 107.2	310.1	338.1	231.4	227.5
Japan	1 049.3	1 092.3	1 230.0	1 287.8	1 078.8	359.3	315.2	243.7	160.7
Others	3 830.7	3 954.8	4 042.9	4 082.8	3 644.1	1 159.1	1 042.7	791.5	650.9
(% change over a year earlier)									
All sources	**-2.5**	**-4.5**	**3.2**	**11.4**	**-14.2**	**16.8**	**10.9**	**-26.0**	**-50.5**
Mainland of China	-3.0	-6.7	3.9	14.8	-14.2	19.7	12.9	-27.7	-52.5
South and Southeast Asia	-1.5	4.0	-2.0	-1.5	-14.9	6.6	6.0	-20.5	-46.1
Taiwan	-0.8	-0.2	*	-4.3	-20.1	0.9	-6.0	-27.8	-46.4
Europe	-1.8	4.1	-0.2	1.9	-10.8	-1.6	-2.0	-12.9	-24.9
United States	4.5	2.6	0.3	7.3	-15.1	1.4	0.1	-18.2	-39.8
Japan	-2.7	4.1	12.6	4.7	-16.2	10.0	8.9	-22.2	-55.2
Others	-1.1	3.2	2.2	1.0	-10.7	13.3	12.0	-15.4	-45.4

Notes: Individual figures may not add up exactly to the total due to rounding.

(*) Change within ±0.05%.

Table 12 : Property market

	2010	2011	2012	2013	2014	2015	2016
Completion of new property by the private sector							
('000 m^2 of internal floor area)							
Residential property[(a)] (in units)	13 405	9 449	10 149	8 254	15 719	11 280	14 595
Commercial property	189	197	226	161	161	233	276
of which :							
Office space	124	155	136	123	104	164	153
Other commercial premises[(b)]	65	42	90	39	57	69	123
Industrial property[(c)]	21	105	170	85	116	30	78
of which :							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	21	32	46	85	36	30	5
Storage premises[(d)]	0	73	123	0	80	0	73
Production of public housing							
(in units)							
Rental housing flats[(e)]	6 385	17 787	9 778	20 898	5 634	10 147	21 755
Subsidised sales flats[(e)]	1 110	0	0	0	0	1 310	229
Building plans with consent to commence work in the private sector							
('000 m^2 of usable floor area)							
Residential property	570.5	580.6	796.4	816.0	647.1	893.3	645.8
Commercial property	158.4	133.6	210.2	309.5	290.3	319.0	312.4
Industrial property[(f)]	34.3	109.3	70.7	138.1	105.9	225.3	76.2
Other properties	459.2	232.7	428.9	136.4	217.1	555.4	235.1
Total	1 222.4	1 056.2	1 506.1	1 400.1	1 260.4	1 993.0	1 269.4
Agreements for sale and purchase of property							
(Number)							
Residential property[(g)]	135 778	84 462	81 333	50 676	63 807	55 982	54 701
Primary market	13 646	10 880	12 968	11 046	16 857	16 826	16 793
Secondary market	122 132	73 582	68 365	39 630	46 950	39 156	37 908
Selected types of non-residential properties[(h)]							
Office space	3 591	3 071	3 269	1 685	1 271	1 470	1 105
Other commerical premises	7 639	5 980	7 282	4 305	3 092	2 067	1 523
Flatted factory space	8 206	7 619	9 731	4 271	3 016	3 407	2 727

Notes: Individual figures may not add up exactly to the total due to rounding.

(a) Figures before 2002 cover all completed residential premises to which either temporary or full Occupation Permits have been granted, as well as village type houses issued with Letters of Compliance. Property developments subject to a Consent Scheme need a Certificate of Compliance, Consent to Assign or Consent to Lease in addition to an Occupation Permit before the premises can be individually assigned. Village-type housing units are excluded as from 2002 and units issued with temporary Occupation Permits are also excluded as from 2004 onwards.

Residential premises here pertain to private residential units, excluding units built under the Private Sector Participation Scheme (PSPS), Home Ownership Scheme (HOS), Buy or Rent Option, Mortgage Subsidy Scheme, Sandwich Class Housing Scheme, Urban Improvement Scheme (UIS) and Flat-for-Sale Scheme. Figures from 2004 onwards also cover those private flats converted from subsidised flats.

(b) These include retail premises and other premises designed or adapted for commercial use, with the exception of purpose-built offices. Car-parking space and commercial premises built by the Hong Kong Housing Authority and the Hong Kong Housing Society are excluded.

(c) These include industrial-cum-office premises, but exclude specialised factory buildings which are developed mainly for own use.

(d) These include storage premises at the container terminals and the airport.

Table 12 : Property market (Cont'd)

	2017	2018	2019	2019 Q1	Q2	Q3	Q4
Completion of new property by the private sector							
('000 m^2 of internal floor area)							
Residential property[(a)] (in units)	17 791	20 968	13 643	971	4 763	4 366	3 543
Commercial property	303	304	384	94	206	34	51
of which :							
Office space	198	179	267	67	182	7	11
Other commercial premises[(b)]	105	125	118	27	23	27	40
Industrial property[(c)]	105	44	56	13	0	14	29
of which :							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	23	41	56	13	0	14	29
Storage premises[(d)]	83	3	0	0	0	0	0
Production of public housing							
(in units)							
Rental housing flats[(e)]	11 268	20 137	N.A.	1 314	1 466	1 056	N.A.
Subsidised sales flats[(e)]	2 788	4 863	N.A.	4 506	1 698	0	N.A.
Building plans with consent to commence work in the private sector							
('000 m^2 of usable floor area)							
Residential property	872.8	703.0	N.A.	214.0	84.4	316.0	N.A.
Commercial property	488.6	109.2	N.A.	12.1	328.4	398.1	N.A.
Industrial property[(f)]	62.5	98.4	N.A.	14.6	0.0	79.6	N.A.
Other properties	227.1	91.9	N.A.	37.4	41.9	147.6	N.A.
Total	1 651.1	1 002.5	N.A.	278.2	454.7	941.3	N.A.
Agreements for sale and purchase of property							
(Number)							
Residential property[(g)]	61 591	57 247	59 797	13 863	20 657	12 336	12 941
Primary market	18 645	15 633	21 108	5 313	7 226	4 400	4 169
Secondary market	42 946	41 614	38 689	8 550	13 431	7 936	8 772
Selected types of non-residential properties[(h)]							
Office space	1 955	1 331	860	207	343	187	123
Other commerical premises	2 198	1 926	1 306	277	459	281	289
Flatted factory space	5 135	4 852	2 411	678	894	468	371

Notes: (cont'd)

(e) The series, sourced from the Housing Authority's housing production figures, exhaustively cover all housing production and to count projects (including surplus HOS projects) which undergo transfer of usage at the time of disposal and according to their actual usage. Moreover, surplus HOS courts and blocks pending disposal are excluded from production statistics until they are disposed. Rental and sales flats projects of the Housing Society are included.

(f) These include multi-purpose industrial premises designed also for office use.

(g) The figures are derived from sale and purchase agreements of domestic units received for registration for the relevant periods. They generally relate to transactions executed up to four weeks prior to their submission for registration. Sales of domestic units refer to sale and purchase agreements with payment of stamp duty. These statistics do not include sales of units under the Home Ownership Scheme, the Private Sector Participation Scheme and the Tenants Purchase Scheme except those after payment of premium. Primary sales generally refer to sales from developers. Secondary sales refer to sales from parties other than developers.

(h) Timing of the figures for non-residential properties is based on the date on which the sale and purchase agreement is signed, which may differ from the date on which the agreement is received for registration.

N.A. Not yet available.

Table 13 : Property prices and rentals

	2010	2011	2012	2013	2014	2015	2016
(Index (1999=100))							
Property price indices :							
Residential flats[(a)]	150.9	182.1	206.2	242.4	256.9	296.8	286.1
Office space	230.4	297.9	334.7	409.8	423.0	448.9	426.9
Shopping space	257.2	327.4	420.5	506.8	521.2	559.2	526.9
Flatted factory space	284.4	385.0	489.8	655.4	668.0	723.9	692.7
Property rental indices[(b)] :							
Residential flats	119.7	134.0	142.6	154.5	159.5	172.8	168.2
Office space	147.6	169.9	188.3	204.1	213.7	226.7	232.3
Shopping space	122.9	134.3	151.3	165.5	173.1	182.5	178.6
Flatted factory space	108.9	118.6	131.9	147.3	160.1	174.4	181.4
(% change over a year earlier)							
Property price indices :							
Residential flats[(a)]	24.4	20.7	13.2	17.6	6.0	15.5	-3.6
Office space	28.1	29.3	12.4	22.4	3.2	6.1	-4.9
Shopping space	33.2	27.3	28.4	20.5	2.8	7.3	-5.8
Flatted factory space	31.5	35.4	27.2	33.8	1.9	8.4	-4.3
Property rental indices[(b)] :							
Residential flats	19.2	11.9	6.4	8.3	3.2	8.3	-2.7
Office space	8.8	15.1	10.8	8.4	4.7	6.1	2.5
Shopping space	10.8	9.3	12.7	9.4	4.6	5.4	-2.1
Flatted factory space	9.6	8.9	11.2	11.7	8.7	8.9	4.0

Notes: (a) Figures pertain to prices of existing flats traded in the secondary market, but not new flats sold in the primary market.

(b) All rental indices shown in this table have been adjusted for concessionary leasing terms such as provision of refurbishment, granting of rent-free periods, and waiver of miscellaneous charges, if known.

For residential property, changes in rentals cover only new tenancies for which rentals are freshly determined. For non-residential property, changes in rentals cover also lease renewals upon which rentals may be revised.

(#) Figures for non-residential property are provisional.

(+) Provisional figures.

(*) Change within ±0.05%.

Table 13 : Property prices and rentals (Cont'd)

	2017	2018	2019+	2019			
				Q1	Q2	Q3#	Q4+
(Index (1999=100))							
Property price indices :							
Residential flats[(a)]	333.9	377.3	382.8	368.9	394.3	387.7	380.4
Office space	487.1	554.7	545.8	539.3	562.1	553.1	528.8
Shopping space	558.4	591.4	549.3	572.8	573.5	544.1	506.9
Flatted factory space	778.1	888.1	885.8	889.1	928.4	884.9	840.8
Property rental indices[(b)] :							
Residential flats	182.6	193.0	194.5	192.4	195.3	198.6	191.8
Office space	241.8	252.2	261.6	259.3	263.5	264.2	259.5
Shopping space	182.5	187.0	187.0	189.3	189.0	188.8	180.7
Flatted factory space	190.7	202.3	209.9	206.7	211.0	213.0	208.8
(% change over a year earlier)							
Property price indices :							
Residential flats[(a)]	16.7	13.0	1.5	1.3	2.7	-1.3	3.3
Office space	14.1	13.9	-1.6	3.2	2.8	-3.3	-8.3
Shopping space	6.0	5.9	-7.1	-1.9	-2.6	-8.6	-15.2
Flatted factory space	12.3	14.1	-0.3	4.5	4.6	-3.0	-6.8
Property rental indices[(b)] :							
Residential flats	8.6	5.7	0.8	2.4	1.8	1.2	-1.9
Office space	4.1	4.3	3.7	5.1	4.8	4.0	1.2
Shopping space	2.2	2.5	*	2.1	1.3	0.5	-3.9
Flatted factory space	5.1	6.1	3.8	4.9	4.4	4.2	1.7

Table 14 : Monetary aggregates

	2010	2011	2012	2013	2014	2015	2016
(at end of period)							
Hong Kong dollar money supply ($Mn)							
M1	730,093	794,726	920,920	1,000,344	1,116,675	1,253,380	1,428,775
M2[(a)]	3,866,788	4,046,216	4,537,384	4,795,130	5,225,773	5,765,549	6,280,230
M3[(a)]	3,878,193	4,055,404	4,545,590	4,806,012	5,236,188	5,778,772	6,292,666
Total money supply ($Mn)							
M1	1,017,227	1,127,320	1,377,359	1,510,895	1,708,724	1,971,146	2,213,970
M2	7,136,271	8,057,530	8,950,005	10,056,437	11,011,372	11,618,441	12,508,127
M3	7,156,260	8,081,079	8,970,396	10,085,243	11,048,944	11,655,019	12,551,331
Deposit ($Mn)							
HK$	3,617,183	3,740,240	4,176,200	4,390,953	4,800,330	5,312,403	5,809,060
Foreign currency	3,245,081	3,851,020	4,120,234	4,789,109	5,272,804	5,437,346	5,918,240
Total	6,862,265	7,591,260	8,296,434	9,180,062	10,073,135	10,749,749	11,727,300
Loans and advances ($Mn)							
HK$	2,824,445	3,160,002	3,333,059	3,606,018	4,000,361	4,152,589	4,479,107
Foreign currency	1,403,281	1,920,659	2,233,751	2,850,795	3,275,910	3,381,951	3,544,284
Total	4,227,726	5,080,661	5,566,810	6,456,813	7,276,271	7,534,540	8,023,390
Nominal Effective Exchange Rate Indices (Jan 2010 =100)[(b)]							
Trade-weighted	99.5	94.6	94.9	94.9	96.0	101.3	104.1
Import-weighted	99.2	93.9	94.2	94.7	96.0	101.7	104.2
Export-weighted	99.8	95.4	95.6	95.1	95.9	100.9	104.1
(% change over a year earlier)							
Hong Kong dollar money supply							
M1	8.8	8.9	15.9	8.6	11.6	12.2	14.0
M2[(a)]	7.8	4.6	12.1	5.7	9.0	10.3	8.9
M3[(a)]	7.6	4.6	12.1	5.7	9.0	10.4	8.9
Total money supply							
M1	12.8	10.8	22.2	9.7	13.1	15.4	12.3
M2	8.1	12.9	11.1	12.4	9.5	5.5	7.7
M3	8.0	12.9	11.0	12.4	9.6	5.5	7.7
Deposit							
HK$	7.2	3.4	11.7	5.1	9.3	10.7	9.3
Foreign currency	7.9	18.7	7.0	16.2	10.1	3.1	8.8
Total	7.5	10.6	9.3	10.7	9.7	6.7	9.1
Loans and advances							
HK$	17.6	11.9	5.5	8.2	10.9	3.8	7.9
Foreign currency	58.2	36.9	16.3	27.6	14.9	3.2	4.8
Total	28.6	20.2	9.6	16.0	12.7	3.5	6.5
Nominal Effective Exchange Rate Indices (Jan 2010 =100)[(b)]							
Trade-weighted	-2.4	-4.9	0.3	*	1.2	5.5	2.8
Import-weighted	-2.9	-5.3	0.3	0.5	1.4	5.9	2.5
Export-weighted	-1.8	-4.4	0.2	-0.5	0.8	5.2	3.2

Definition of Terms :

The Hong Kong Dollar Money Supply is the Hong Kong dollar component of the respective monetary aggregate.

Total Money Supply:

M1: Legal tender notes and coins with the public, plus customers' demand deposits with licensed banks.

M2: M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit issued by licensed banks and held outside the monetary sector, as well as short term Exchange Fund placements of less than one month.

M3: M2 plus customers' deposits with restricted licence banks and deposit-taking companies, plus negotiable certificates of deposit issued by such institutions and held outside the monetary sector.

Table 14 : Monetary aggregates (Cont'd)

	2017	2018	2019	2019 Q1	Q2	Q3	Q4
(at end of period)							
Hong Kong dollar money supply ($Mn)							
M1	1,598,014	1,555,731	1,533,104	1,583,172	1,566,091	1,546,402	1,533,104
M2[(a)]	7,010,345	7,262,451	7,438,789	7,441,529	7,515,464	7,441,069	7,438,789
M3[(a)]	7,024,514	7,284,322	7,454,655	7,461,791	7,536,687	7,457,142	7,454,655
Total money supply ($Mn)							
M1	2,431,461	2,421,598	2,484,738	2,418,572	2,428,901	2,469,077	2,484,738
M2	13,755,255	14,348,059	14,745,872	14,485,182	14,536,903	14,507,927	14,745,872
M3	13,803,837	14,403,688	14,786,375	14,545,033	14,594,039	14,547,864	14,786,375
Deposit ($Mn)							
HK$	6,484,616	6,715,262	6,884,143	6,879,508	6,955,188	6,884,808	6,884,143
Foreign currency	6,267,872	6,671,119	6,887,444	6,679,751	6,652,789	6,707,716	6,887,444
Total	12,752,488	13,386,381	13,771,586	13,559,259	13,607,977	13,592,524	13,771,586
Loans and advances ($Mn)							
HK$	5,359,983	5,836,238	6,219,377	6,038,281	6,210,439	6,237,338	6,219,377
Foreign currency	3,953,686	3,886,385	4,157,566	3,909,729	3,921,139	4,071,466	4,157,566
Total	9,313,668	9,722,623	10,376,943	9,948,011	10,131,579	10,308,804	10,376,943
Nominal Effective Exchange Rate Indices (Jan 2010 =100)[(b)]							
Trade-weighted	104.2	101.8	105.2	103.5	104.6	106.3	106.4
Import-weighted	104.2	101.7	104.9	103.3	104.4	105.9	105.9
Export-weighted	104.3	101.9	105.5	103.7	104.8	106.7	106.8
(% change over a year earlier)							
Hong Kong dollar money supply							
M1	11.8	-2.6	-1.5	-4.4	-5.7	-3.5	-1.5
M2[(a)]	11.6	3.6	2.4	2.9	3.5	1.9	2.4
M3[(a)]	11.6	3.7	2.3	3.0	3.5	1.8	2.3
Total money supply							
M1	9.8	-0.4	2.6	-2.2	-3.6	1.0	2.6
M2	10.0	4.3	2.8	3.9	4.0	2.8	2.8
M3	10.0	4.3	2.7	4.0	4.0	2.6	2.7
Deposit							
HK$	11.6	3.6	2.5	3.0	3.6	1.8	2.5
Foreign currency	5.9	6.4	3.2	7.2	6.6	5.8	3.2
Total	8.7	5.0	2.9	5.0	5.0	3.7	2.9
Loans and advances							
HK$	19.7	8.9	6.6	8.7	8.3	8.5	6.6
Foreign currency	11.6	-1.7	7.0	-4.5	-3.7	3.1	7.0
Total	16.1	4.4	6.7	3.1	3.3	6.3	6.7
Nominal Effective Exchange Rate Indices (Jan 2010 =100)[(b)]							
Trade-weighted	0.1	-2.3	3.3	5.0	5.3	2.2	0.9
Import-weighted	*	-2.4	3.1	4.8	5.1	2.0	0.5
Export-weighted	0.2	-2.3	3.5	5.1	5.5	2.5	1.0

Notes: (a) Adjusted to include foreign currency swap deposits.

(b) Period average.

(*) Change within ±0.05%.

Table 15 : Rates of change in business receipts indices for services industries/domains

(%)

	2015	2016	2017	2018	2018		2019	
					Q4	Q1	Q2	Q3
Services Industry								
Import and export trade	-3.9	-2.5	2.3	3.7	1.6	-3.1	-6.3	-8.0
Wholesale	-4.9	-1.0	2.8	4.3	0.7	-6.1	-5.2	-11.2
Retail	-3.7	-8.1	2.2	8.7	2.3	-1.2	-4.2	-17.5
Transportation	-4.3	-6.5	7.1	8.0	7.2	1.9	0.4	-2.3
within which:								
Land transport	5.4	3.6	1.8	5.3	7.3	7.8	5.2	2.3
Water transport	-7.7	-11.2	5.6	4.4	9.4	3.5	3.0	-0.3
Air transport	-5.1	-7.0	10.0	11.3	6.0	-1.0	-2.5	-4.8
Warehousing and storage	12.7	12.1	14.1	12.7	12.8	4.3	4.8	-0.7
Courier	-5.9	5.5	19.1	-0.7	-4.7	-11.0	-3.5	5.0
Accommodation services[(a)]	-6.6	-1.1	6.0	10.8	7.0	9.8	-0.9	-19.3
Food services	3.9	2.9	5.0	6.0	2.3	3.1	-0.5	-11.8
Information and communications	10.8	0.6	2.9	3.1	-4.8	1.9	1.3	2.9
within which:								
Telecommunications	19.6	-0.8	-3.5	2.2	-6.4	-4.0	-1.0	0.9
Film entertainment	-3.1	-4.5	4.3	3.1	6.1	0.3	7.8	-6.3
Banking	8.3	8.1	-0.1	6.8	1.2	0.2	4.6	5.5
Financing (except banking)	19.0	-6.0	7.2	10.3	-0.3	-5.8	2.9	-1.8
within which:								
Financial markets and asset management	19.0	-8.7	1.6	11.6	-3.7	-6.5	2.6	-4.8
within which : Asset management	7.0	4.1	4.4	3.7	-9.6	-0.8	7.1	6.7
Insurance	11.7	21.8	11.8	8.7	12.3	13.2	19.8	6.8
Real estate	7.0	10.4	10.2	5.4	-2.9	15.4	21.9	2.3
Professional, scientific and technical services	5.3	3.3	1.9	3.3	-2.0	2.7	2.1	1.3
Administrative and support services	7.4	0.9	1.5	3.5	3.8	4.2	3.3	-2.1
Services Domain								
Tourism, convention and exhibition services	-5.0	-8.1	0.8	11.0	8.3	4.0[+]	1.1[+]	-27.8[+]
Computer and information technology services	-4.2	-3.5	1.4	2.9	3.9	-2.6	-7.0	-8.8

Notes: Upon the implementation of the new Hong Kong Standard Industrial Classification (HSIC) Version 2.0 by the C&SD in October 2008, the new classification has been adopted in compiling the quarterly business receipts indices. Starting from the first quarter of 2009, all business receipts indices are compiled based on the HSIC Version 2.0, and the base period of the indices has been changed to 2008 (i.e. with the quarterly average of the indices in 2008 taken as 100). The series of business receipts indices under the HSIC Version 2.0 has also been backcasted to the first quarter of 2005.

(a) Accommodation services sector covers hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

(+) Provisional figures.

Table 16 : Labour force characteristics

	2015	2016	2017	2018	2019+	2019 Q1	2019 Q2	2019 Q3	2019 Q4
(%)									
Labour force participation rate	61.1	61.1	61.1	61.2	60.5	60.7	60.7	60.5	60.1
Seasonally adjusted unemployment rate(a)	3.3	3.4	3.1	2.8	3.0	2.8	2.8	2.9	3.3
Underemployment rate	1.4	1.4	1.2	1.1	1.1	1.0	1.0	1.0	1.2
('000)									
Population of working age	6 383.7	6 420.9	6 463.3	6 506.4	6 559.5	6 540.5	6 566.5	6 570.5	6 560.4
Labour force	3 903.2	3 920.1	3 946.6	3 979.0	3 968.3	3 970.8	3 985.0	3 975.7	3 941.8
Persons employed	3 773.8	3 787.1	3 823.2	3 867.0	3 851.1	3 860.4	3 870.7	3 855.4	3 817.8
Persons unemployed	129.4	133.0	123.4	112.0	117.2	110.4	114.3	120.3	124.0
Persons underemployed	53.3	54.7	45.6	43.2	42.2	38.9	41.2	41.5	47.4
(% change over a year earlier)									
Population of working age	0.7	0.6	0.7	0.7	0.8	0.8	1.0	0.8	0.4
Labour force	0.8	0.4	0.7	0.8	-0.3	-0.1	0.4	-0.2	-0.8
Persons employed	0.8	0.4	1.0	1.1	-0.4	-0.1	0.4	-0.3	-1.3
Persons unemployed	1.4	2.8	-7.2	-9.2	4.7	-1.0	1.6	1.9	17.3
Persons underemployed	-6.1	2.5	-16.5	-5.3	-2.3	0.2	-0.6	-12.4	6.5

Notes: (a) Seasonal adjustment is not applicable to annual unemployment rates.

(+) Provisional figures.

Table 17 : Employment in selected major industries

Selected major industries	2014	2015	2016	2017	2018	2018 Dec	2019 Mar	2019 Jun	2019 Sep	2019 Sep
	(% change)					(% change over a year earlier)				(No.)
Manufacturing	-1.2	-2.8	-3.6	-3.3	-3.0	-1.5	-2.6	-2.7	-3.5	86 343
Construction sites (covering manual workers only)	4.4	14.9	13.3	10.1	-5.8	-16.1	-11.0	-11.5	-10.0	96 891
Import and export trade	0.1	-1.4	-0.7	-0.4	-0.6	-0.6	-3.7	-5.1	-6.6	444 646
Wholesale	-0.3	-1.4	-0.8	-0.6	-0.9	-1.2	-2.1	-3.1	-5.2	56 781
Retail	2.2	-0.5	-1.1	0.5	1.7	1.8	0.6	-0.3	-2.2	266 991
Food and beverage services	2.4	0.1	-0.2	0.3	2.8	3.5	2.1	0.7	-4.9	239 247
Accommodation services[(a)]	3.2	-1.1	-2.1	0.3	4.8	5.9	6.6	3.0	*	41 530
Transportation, storage, postal and courier services	2.7	1.6	0.5	0.2	0.6	-0.1	0.8	0.3	0.2	180 402
Information and communications	2.7	1.1	0.7	0.9	1.5	2.6	3.4	2.5	1.2	110 425
Financing and insurance	2.3	2.3	0.8	1.5	2.6	2.8	3.2	3.5	2.7	237 405
Real estate	0.6	1.7	-0.1	1.3	2.0	2.4	2.3	1.7	0.9	135 190
Professional and business services (excluding cleaning and similar services)	2.7	2.4	1.9	2.1	3.2	3.2	2.3	2.1	1.4	307 341
Cleaning and similar services	0.2	2.4	0.5	0.7	-1.4	-1.5	-1.1	-0.6	0.2	81 021
Education	4.4	3.9	2.3	1.6	1.8	1.6	1.6	1.8	1.9	206 062
Human health services	4.3	4.5	4.3	3.5	3.4	3.7	4.3	4.5	4.8	136 113
Residential care and social work services	0.6	2.8	3.0	1.0	1.0	0.7	0.9	1.7	2.7	65 646
Arts, entertainment, recreation and other services	5.9	0.9	-2.2	-0.6	1.4	1.6	1.2	1.1	1.4	128 738
Civil service[(b)]	1.0	0.7	1.2	1.6	2.1	2.0	2.0	2.3	2.3	176 661
Others[(c)]	3.1	-1.0	0.8	2.1	*	0.7	0.5	4.7	1.0	11 524

Notes: Starting from March 2009, the survey coverage has been expanded to include more economic activities in some of the industries due to the change in industrial classification based on the Hong Kong Standard Industrial Classification (HSIC) Version 2.0. The activities newly covered are in the industries of transportation, storage, postal and courier services; professional and business services; and arts, entertainment, recreation and other services. The series of employment statistics under the HSIC Version 2.0 has also been backcasted to March 2000.

(a) Accommodation services sector covers hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

(b) These figures cover only those employed on civil service terms of appointment. Judges, judicial officers, ICAC officers, locally engaged staff working in the Hong Kong Economic and Trade Offices outside Hong Kong, and other government employees such as non-civil service contract staff are not included.

(c) Include employment in mining and quarrying; and in electricity and gas supply, and waste management.

(*) Change within ±0.05%.

Table 18 : Number of manual workers engaged at building and construction sites

	2014	2015	2016	2017	2018	2018 Dec	2019 Mar	2019 Jun	2019 Sep
(Number)									
Building sites									
Private sector	44 024	50 372	60 243	65 985	65 700	63 218	67 430	64 174	60 083
Public sector[(a)]	11 212	15 470	16 030	21 660	21 604	20 556	19 167	18 222	18 215
Sub-total	55 236	65 842	76 273	87 645	87 303	83 774	86 597	82 396	78 298
Civil engineering sites									
Private sector	1 414	1 609	1 386	979	1 729	2 083	2 488	2 612	2 477
Public sector[(a)]	26 145	27 652	30 141	30 050	22 816	17 160	18 363	17 715	16 116
Sub-total	27 559	29 261	31 526	31 029	24 546	19 243	20 851	20 327	18 593
Total	**82 795**	**95 103**	**107 799**	**118 674**	**111 849**	**103 017**	**107 448**	**102 723**	**96 891**
(% change over a year earlier)									
Building sites									
Private sector	6.6	14.4	19.6	9.5	-0.4	-7.6	-0.7	-5.8	-5.5
Public sector[(a)]	13.7	38.0	3.6	35.1	-0.3	-10.3	-14.8	-17.6	-14.3
Sub-total	8.0	19.2	15.8	14.9	-0.4	-8.3	-4.2	-8.7	-7.7
Civil engineering sites									
Private sector	7.0	13.8	-13.9	-29.3	76.6	106.2	69.3	77.1	31.1
Public sector[(a)]	-2.5	5.8	9.0	-0.3	-24.1	-43.5	-36.4	-27.3	-22.7
Sub-total	-2.0	6.2	7.7	-1.6	-20.9	-38.7	-31.3	-21.3	-18.2
Total	**4.4**	**14.9**	**13.3**	**10.1**	**-5.8**	**-16.1**	**-11.0**	**-11.5**	**-10.0**

Notes: Individual figures may not add up exactly to the total due to rounding.

(a) Including the Mass Transit Railway Corporation Limited and the Airport Authority Hong Kong.

Table 19 : Rates of change in indices of payroll per person engaged by selected industry section

(%)

Selected industry sections	2014	2015	2016	2017	2018	2018 Q4	2019 Q1	2019 Q2	2019 Q3
(in nominal terms)									
Manufacturing	5.3	5.2	3.5	3.4	4.0	4.0	3.9	4.2	4.2
Import/export and wholesale trades	2.8	3.7	2.3	2.9	3.2	2.8	2.8	2.7	2.3
Retail trade	4.2	3.5	2.4	3.3	3.0	2.6	2.4	2.5	2.2
Transportation, storage, postal and courier services	3.3	4.3	3.3	3.4	4.1	4.8	4.9	4.8	3.5
Accommodation[(a)] and food service activities	5.2	5.8	5.1	4.7	5.3	5.7	5.2	5.3	4.9
Information and communications	5.1	4.4	3.4	3.3	3.3	3.3	4.1	4.3	3.9
Financial and insurance activities	6.3	4.0	2.7	3.0	3.1	3.3	3.2	3.2	3.0
Real estate activities	4.7	5.1	4.2	4.3	4.3	4.1	4.1	4.4	4.1
Professional and business services	6.9	5.8	5.1	4.2	4.6	4.8	4.8	4.1	3.8
Social and personal services	1.6	6.7	2.5	3.1	4.3	2.9	4.1	4.0	0.1
All selected industry sections surveyed	**4.3**	**4.6**	**3.7**	**3.7**	**3.9**	**3.7**	**4.0**	**4.1**	**3.0**
(in real terms)									
Manufacturing	0.9	2.1	1.0	2.0	1.6	1.4	1.6	1.2	0.8
Import/export and wholesale trades	-1.5	0.7	-0.1	1.4	0.8	0.2	0.6	-0.3	-1.0
Retail trade	-0.1	0.5	*	1.8	0.6	*	0.1	-0.4	-1.1
Transportation, storage, postal and courier services	-1.0	1.3	0.9	1.9	1.6	2.1	2.7	1.7	0.1
Accommodation[(a)] and food service activities	0.8	2.7	2.6	3.2	2.8	3.0	3.0	2.3	1.5
Information and communications	0.7	1.4	1.0	1.9	0.8	0.7	1.8	1.3	0.6
Financial and insurance activities	1.9	0.7	0.3	1.6	0.7	0.7	1.0	0.2	-0.3
Real estate activities	0.2	2.0	1.7	2.8	1.9	1.5	1.9	1.4	0.7
Professional and business services	2.3	2.8	2.6	2.7	2.2	2.1	2.5	1.1	0.5
Social and personal services	-2.7	3.6	0.1	1.6	1.8	0.3	1.8	1.0	-3.1
All selected industry sections surveyed	**-0.1**	**1.5**	**1.3**	**2.3**	**1.5**	**1.1**	**1.8**	**1.1**	**-0.3**

Notes: The rates of change in real terms are compiled from the Real Indices of Payroll per Person Engaged. The Indices are derived by deflating the Nominal Indices of Payroll per Person Engaged by the 2014/15-based Composite CPI.

In addition to wages, which include all regular and guaranteed payments like basic pay and stipulated bonuses and allowances, payroll also covers overtime pay and other non-guaranteed or irregular bonuses and allowances, except severance pay and long service payment. Because of this difference, as well as the difference in industrial and occupational coverage, the movements in payroll per person engaged do not necessarily match closely with those in wage rates.

(a) Accommodation services sector covers hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

(*) Change within ±0.05%.

Table 20 : Rates of change in wage indices by selected industry section

(%)

Selected industry sections	2014	2015	2016	2017	2018	2018 Dec	2019 Mar	2019 Jun	2019 Sep
(in nominal terms)									
Manufacturing	4.9	4.0	4.0	3.7	3.6	4.0	3.9	3.7	3.4
Import/export, wholesale and retail trades	2.5	3.1	2.7	3.0	3.0	3.0	2.8	2.5	2.3
Transportation	4.8	4.4	3.5	2.9	4.7	5.9	4.9	5.4	3.9
Accommodation[(a)] and food service activities	4.7	5.4	4.9	4.7	4.6	4.8	4.7	4.4	4.1
Financial and insurance activities[(b)]	3.2	3.2	3.4	3.5	3.5	3.8	3.7	3.8	3.6
Real estate leasing and maintenance management	4.5	3.4	3.7	4.1	4.4	4.2	4.0	4.1	3.9
Professional and business services	6.7	6.9	4.7	4.7	4.4	4.2	4.1	3.9	3.6
Personal services	7.8	6.5	5.5	4.2	4.1	3.9	3.8	3.9	3.7
All industries surveyed	**4.2**	**4.4**	**3.7**	**3.8**	**4.0**	**4.1**	**3.9**	**3.8**	**3.4**
(in real terms)									
Manufacturing	-1.6	0.2	1.4	2.2	0.8	0.9	1.4	-0.1	-0.1
Import/export, wholesale and retail trades	-3.9	-0.6	0.3	1.6	0.1	*	0.4	-1.3	-1.1
Transportation	-1.9	0.6	1.0	1.5	1.7	2.8	2.4	1.4	0.4
Accommodation[(a)] and food service activities	-1.8	1.5	2.3	3.3	1.7	1.7	2.2	0.5	0.6
Financial and insurance activities[(b)]	-3.7	-0.5	0.9	2.1	0.6	0.8	1.3	-0.1	0.1
Real estate leasing and maintenance management	-1.9	-0.4	1.1	2.6	1.4	1.2	1.6	0.3	0.4
Professional and business services	*	2.9	2.3	3.2	1.5	1.2	1.6	*	0.1
Personal services	1.1	2.6	3.0	2.7	1.1	0.8	1.4	0.1	0.2
All industries surveyed	**-2.4**	**0.6**	**1.2**	**2.3**	**1.0**	**1.0**	**1.4**	**-0.1**	*

Notes: The rates of change in real terms are compiled from the Real Wage Indices. The Indices are derived by deflating the Nominal Wage Indices by the 2014/15-based CPI(A).

(a) Accommodation services sector covers hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

(b) Excluding stock, commodity and bullion brokers, exchanges and services companies; and real estate agencies.

(*) Change within ±0.05%.

Table 21 : Monthly wage level and distribution analysed by industry section : all employees

(HK$)

Industry sections	May – Jun 2017 25th percentile	May – Jun 2017 50th percentile	May – Jun 2017 75th percentile	May – Jun 2018 25th percentile	May – Jun 2018 50th percentile	May – Jun 2018 75th percentile
Manufacturing[(a)]	13,300	16,100	24,200	13,900	16,900	26,000
Electricity and gas supply; sewerage, waste management and remediation activities	20,000	26,500	42,200	21,000	27,800	45,300
Construction	17,300	22,100	27,000	18,000	22,800	28,400
Import and export trade	12,900	17,500	26,900	13,500	18,300	27,500
Wholesale	11,100	14,300	19,300	11,500	14,900	19,700
Retail trade	10,400	13,000	17,200	10,600	13,500	17,600
within which:						
Supermarkets and convenience stores	6,800	11,000	13,600	7,400	11,500	14,400
Other retail stores	10,700	13,300	18,000	11,300	13,800	18,200
Land transport	14,100	18,200	27,100	14,000	18,900	28,500
Other transportation, storage, postal and courier services[(b)]	13,300	17,500	23,800	14,000	18,400	24,700
Restaurants	10,000	12,400	16,100	10,600	13,100	17,000
within which:						
Hong Kong style tea cafes	10,600	12,300	16,500	11,400	13,000	16,900
Chinese restaurants	11,600	13,800	18,600	12,300	14,400	19,400
Restaurants, other than Chinese	11,000	13,000	16,600	11,500	13,500	17,000
Fast food cafes[(c)]	4,400	9,300	12,000	4,800	9,700	13,100
Accommodation[(d)] and other food service activities	12,000	14,900	19,500	12,500	15,500	19,400
Information and communications	14,700	21,600	33,000	15,400	22,800	35,000
Financing and insurance	17,100	26,900	45,000	18,000	27,500	45,500
Real estate activities[(e)]	13,600	21,500	31,900	14,500	22,300	34,000
Estate management, security and cleaning services	9,500	11,700	14,300	9,600	12,400	15,200
within which:						
Real estate maintenance management	11,600	12,900	15,900	12,000	13,500	16,500
Security services[(f)]	10,600	12,300	14,600	11,100	12,800	15,600
Cleaning services	7,600	9,100	10,200	7,500	9,200	10,400
Membership organisations[(g)]	9,600	12,900	20,000	10,200	13,100	21,000
Professional, scientific and technical services	14,800	22,100	34,600	15,200	23,300	36,000
Administrative and support services activities	12,000	16,200	25,000	12,500	16,500	26,300
Travel agency, reservation service and related activities	11,500	14,100	20,000	11,800	14,800	21,000
Education and public administration (excluding the Government)	13,800	27,500	49,400	14,000	28,400	50,900
Human health activities; and beauty and body prettifying treatment	13,500	18,200	40,000	13,500	18,800	41,100
Miscellaneous activities	10,000	12,000	15,700	10,400	12,400	16,300
within which:						
Elderly homes	11,300	13,100	16,000	12,000	13,700	16,600
Laundry and dry cleaning services	8,200	11,100	14,700	8,900	11,500	15,500
Hairdressing and other personal services	9,700	11,500	15,600	10,200	12,000	16,300
Local courier services	8,000	10,200	14,000	8,100	10,600	14,300
Food processing and production	9,600	12,000	17,000	10,000	12,400	17,800
Other activities not classified above	11,200	15,000	23,300	11,900	15,600	24,500
All industry sections above	**12,100**	**16,800**	**26,300**	**12,600**	**17,500**	**27,300**

Notes: Monthly wages are rounded to the nearest hundred of Hong Kong dollar.

(a) Excluding food processing and production.

(b) Excluding local courier services.

(c) Including takeaway shops.

(d) Accommodation services sector covers hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

(e) Excluding real estate maintenance management.

(f) Including investigation activities and services to buildings and landscape care activities.

(g) Including incorporated owners/tenants committees, kaifong welfare associations, etc.

Table 22 : Hourly wage level and distribution analysed by industry section : all employees

(HK$)

Industry sections	May – Jun 2017 25th percentile	May – Jun 2017 50th percentile	May – Jun 2017 75th percentile	May – Jun 2018 25th percentile	May – Jun 2018 50th percentile	May – Jun 2018 75th percentile
Manufacturing[(a)]	50.5	65.4	97.4	52.8	68.8	101.7
Electricity and gas supply; sewerage, waste management and remediation activities	74.2	102.3	153.3	76.0	107.3	169.1
Construction	73.2	93.2	114.3	75.5	96.7	118.8
Import and export trade	54.4	75.0	113.9	56.5	78.9	116.3
Wholesale	48.4	60.5	81.3	50.2	63.5	84.3
Retail trade	41.6	49.3	64.8	44.1	51.3	66.2
within which:						
Supermarkets and convenience stores	39.0	43.8	49.2	41.2	45.8	50.3
Other retail stores	42.3	51.0	68.3	44.8	54.0	69.7
Land transport	52.4	75.0	115.5	54.6	77.6	120.0
Other transportation, storage, postal and courier services[(b)]	49.5	64.5	88.2	51.6	67.9	93.4
Restaurants	42.0	47.0	58.7	44.7	49.9	62.5
within which:						
Hong Kong style tea cafes	43.1	47.8	58.1	45.0	49.2	60.0
Chinese restaurants	43.0	49.2	65.8	44.8	50.9	68.7
Restaurants, other than Chinese	43.3	49.0	61.7	45.2	50.1	63.3
Fast food cafes[(c)]	40.2	42.6	46.8	43.0	46.5	51.7
Accommodation[(d)] and other food service activities	43.5	52.9	69.3	45.0	53.9	70.4
Information and communications	58.3	83.8	128.5	62.1	90.2	134.4
Financing and insurance	67.8	105.1	180.2	72.2	107.5	185.2
Real estate activities[(e)]	60.7	85.7	136.9	61.3	88.2	141.4
Estate management, security and cleaning services	37.5	41.8	54.0	38.6	43.6	54.0
within which:						
Real estate maintenance management	37.6	41.4	57.7	39.4	44.1	59.7
Security services[(f)]	37.3	40.9	49.2	39.3	43.0	52.6
Cleaning services	36.7	41.8	46.2	37.8	42.7	48.7
Membership organisations[(g)]	40.0	52.9	81.2	42.6	53.8	87.5
Professional, scientific and technical services	61.2	89.6	148.1	64.2	94.0	155.6
Administrative and support services activities	46.7	66.7	103.2	48.4	68.0	106.3
Travel agency, reservation service and related activities	47.2	62.5	83.4	48.4	64.1	87.8
Education and public administration (excluding the Government)	66.4	127.5	216.3	65.7	130.5	220.0
Human health activities; and beauty and body prettifying treatment	59.3	84.0	158.5	61.9	86.0	168.5
Miscellaneous activities	41.2	48.4	64.4	42.5	49.4	67.2
within which:						
Elderly homes	38.9	47.4	63.0	40.1	50.0	66.3
Laundry and dry cleaning services	39.4	45.3	60.7	40.9	47.1	62.9
Hairdressing and other personal services	44.7	48.8	66.3	45.6	50.0	68.4
Local courier services	40.6	47.8	58.6	42.0	49.9	60.0
Food processing and production	40.3	47.0	64.5	41.9	48.4	69.5
Other activities not classified above	48.4	61.1	96.0	51.0	64.3	99.7
All industry sections above	**48.1**	**68.0**	**107.5**	**50.0**	**70.5**	**111.1**

Notes: Hourly wages are rounded to the nearest ten cents of Hong Kong dollar.

(a) Excluding food processing and production.

(b) Excluding local courier services.

(c) Including takeaway shops.

(d) Accommodation services sector covers hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

(e) Excluding real estate maintenance management.

(f) Including investigation activities and services to buildings and landscape care activities.

(g) Including incorporated owners/tenants committees, kaifong welfare associations, etc.

Table 23 : Rates of change in prices

(%)

	2010	2011	2012	2013	2014	2015	2016	2017
GDP deflator	0.3	3.9	3.5	1.8	2.9	3.6	1.6	2.9
Domestic demand deflator	2.2	4.5	4.2	1.4	3.1	2.2	1.4	2.8
Consumer Price Indices[(a)] :								
Composite CPI	2.4	5.3	4.1	4.3	4.4	3.0	2.4	1.5
CPI(A)	2.7	5.6	3.6	5.1	5.6	4.0	2.8	1.5
CPI(B)	2.3	5.2	4.3	4.1	4.2	2.9	2.3	1.4
CPI(C)	2.1	5.1	4.1	3.8	3.5	2.1	2.1	1.5
Unit Value Indices :								
Total exports of goods	4.7	8.0	3.4	1.3	2.0	0.1	-1.7	1.8
Imports of goods	6.4	8.1	3.3	0.9	1.9	-0.4	-1.7	1.9
Terms of Trade Index[(b)]	-1.7	-0.1	0.1	0.4	0.1	0.5	*	-0.1
Producer Price Index for all manufacturing industries	6.0	8.3	0.1	-3.1	-1.7	-2.7	1.3	3.8
Tender Price Indices :								
Public sector building projects	12.5	11.6	8.3	6.6	7.3	5.9	1.0	-0.3
Public housing projects	6.7	10.1	6.4	9.3	8.0	12.5	-0.7	0.3

Notes:
(a) The year-on-year rates of change before October 2015 were derived using the index series in the base periods at that time (for instance the 2009/10-based index series), compared with the index a year earlier in the same base period.
(b) Derived from merchandise trade index numbers.
(#) Figures are subject to revision later on as more data become available.
(*) Change within ±0.05%.
N.A. Not yet available.
(^) Average annual rate of change for the 10-year period 2008-2018.
(~) Average annual rate of change for the 5-year period 2013-2018.

Table 23 : Rates of change in prices (Cont'd)

(%)

	2018	2019	2019				Average annual rate of change:	
			Q1	Q2	Q3	Q4	10 years 2009 to 2019	5 years 2014 to 2019
GDP deflator#	3.6	2.4	2.8	2.9	2.3	1.7	2.7	2.8
Domestic demand deflator#	3.4	2.7	2.1	2.9	3.1	3.0	2.8	2.5
Consumer Price Indices[(a)] :								
Composite CPI	2.4	2.9	2.2	3.0	3.3	3.0	3.3	2.4
CPI(A)	2.7	3.3	2.6	3.3	3.9	3.4	3.7	2.9
CPI(B)	2.3	2.7	2.1	2.8	3.1	2.9	3.2	2.3
CPI(C)	2.2	2.6	2.0	2.8	3.0	2.6	2.9	2.1
Unit Value Indices :								
Total exports of goods	2.4	1.1	2.2	1.9	0.9	-0.2	2.3	0.7
Imports of goods	2.6	1.3	2.2	1.9	1.0	0.1	2.4	0.7
Terms of Trade Index[(b)]	-0.1	-0.1	*	-0.1	*	-0.3	-0.1	*
Producer Price Index for all manufacturing industries	2.0	N.A.	0.7	0.8	1.3	N.A.	1.2^	0.5~
Tender Price Indices :								
Public sector building projects	-2.9	N.A.	-3.4	-2.4	-1.9	N.A.	3.1^	2.1~
Public housing projects	-1.9	N.A.	-1.8	-1.9	N.A.	N.A.	4.2^	3.5~

Table 24 : Rates of change in Composite Consumer Price Index

(%)

	Weight	2010	2011	2012	2013	2014	2015	2016
All items	**100.00**	**2.4** **(1.7)**	**5.3** **(5.3)**	**4.1** **(4.7)**	**4.3** **(4.0)**	**4.4** **(3.5)**	**3.0** **(2.5)**	**2.4** **(2.3)**
Food	27.29	2.4	7.0	5.8	4.4	4.1	4.0	3.4
Meals bought away from home	*17.74*	*1.7*	*5.2*	*5.4*	*4.4*	*4.6*	*4.2*	*3.3*
Food, excluding meals bought away from home	*9.55*	*3.5*	*9.9*	*6.5*	*4.4*	*3.4*	*3.4*	*3.6*
Housing[(a)]	34.29	0.4	7.2	5.6	6.7	6.7	5.1	3.7
Private housing rent	*29.92*	*0.9*	*7.2*	*6.8*	*6.3*	*6.0*	*4.7*	*3.4*
Public housing rent	*1.94*	*-7.8*	*11.9*	*-7.1*	*16.0*	*18.3*	*10.9*	*7.2*
Electricity, gas and water	2.67	43.3	-4.2	-8.2	6.9	14.9	8.4	1.0
Alcoholic drinks and tobacco	0.54	3.4	17.1	3.0	1.5	6.5	1.3	1.5
Clothing and footwear	3.21	1.8	6.8	3.1	1.7	0.9	-1.8	-3.4
Durable goods	4.65	-2.7	-3.8	-1.4	-4.3	-3.4	-5.6	-5.4
Miscellaneous goods	3.56	2.4	3.8	2.2	2.2	2.3	0.9	1.5
Transport	7.98	2.0	4.4	3.0	2.3	2.0	-0.3	1.6
Miscellaneous services	15.81	2.0	3.5	2.8	3.7	3.0	1.1	2.3

Notes: The year-on-year rates of change before October 2015 were derived using the index series in the base periods at that time (for instance the 2009/10-based index series), compared with the index a year earlier in the same base period. The weights quoted in this table correspond to that in the 2014/15-based index series.

Figures in brackets represent the underlying rates of change after netting out the effects of Government's one-off relief measures.

(a) Apart from "Private housing rent" and "Public housing rent", the "Housing" section also includes "Management fees and other housing charges" and "Materials for house maintenance".

Table 24 : Rates of change in Composite Consumer Price Index (Cont'd)

(%)

	Weight	2017	2018	2019	2019 Q1	2019 Q2	2019 Q3	2019 Q4	Average annual rate of change: 10 years 2009 to 2019	Average annual rate of change: 5 years 2014 to 2019
All items	**100.00**	**1.5 (1.7)**	**2.4 (2.6)**	**2.9 (3.0)**	**2.2 (2.7)**	**3.0 (2.9)**	**3.3 (3.3)**	**3.0 (3.0)**	**3.3 (3.1)**	**2.4 (2.4)**
Food	27.29	2.2	3.4	4.9	3.1	4.1	6.1	6.2	4.1	3.5
Meals bought away from home	*17.74*	*2.7*	*2.9*	*2.2*	*2.3*	*2.1*	*2.1*	*2.1*	*3.6*	*3.1*
Food, excluding meals bought away from home	*9.55*	*1.1*	*4.3*	*9.9*	*4.6*	*7.7*	*13.4*	*13.7*	*5.0*	*4.4*
Housing[(a)]	34.29	2.0	2.5	3.5	2.9	4.2	3.7	3.1	4.3	3.4
Private housing rent	*29.92*	*1.8*	*2.2*	*3.1*	*2.3*	*3.8*	*3.4*	*3.1*	*4.2*	*3.0*
Public housing rent	*1.94*	*3.0*	*4.1*	*7.1*	*11.6*	*10.9*	*6.9*	*-0.2*	*6.0*	*6.4*
Electricity, gas and water	2.67	-1.7	4.9	-5.4	-4.9	-4.8	-5.6	-6.3	5.2	1.3
Alcoholic drinks and tobacco	0.54	0.6	1.3	1.2	2.7	2.4	0.5	-0.7	3.6	1.2
Clothing and footwear	3.21	-0.4	1.6	-1.7	-0.2	-1.7	-1.5	-3.4	0.8	-1.2
Durable goods	4.65	-3.2	-2.0	-1.9	-2.1	-2.0	-1.5	-2.0	-3.4	-3.6
Miscellaneous goods	3.56	1.4	1.3	2.5	1.6	2.0	2.9	3.3	2.0	1.5
Transport	7.98	2.3	1.6	2.0	1.9	2.0	2.3	1.9	2.1	1.4
Miscellaneous services	15.81	0.9	2.1	2.0	1.8	2.5	1.7	1.9	2.3	1.7

Table 25 : Rates of change in implicit price deflators of GDP and its main expenditure components

(%)

	2010	2011	2012	2013	2014	2015	2016
Private consumption expenditure	1.4	3.6	3.2	2.7	2.9	1.2	1.5
Government consumption expenditure	-0.2	4.5	6.2	4.3	4.7	4.4	3.7
Gross domestic fixed capital formation	5.8	6.8	6.4	-2.9	3.1	4.5	-0.3
Total exports of goods	4.3	7.8	3.2	-0.1	0.7	-0.7	-1.4
Imports of goods	6.3	8.4	4.3	-0.3	0.8	-1.4	-1.8
Exports of services	8.2	7.5	4.7	0.4	0.4	-2.8	-2.0
Imports of services	4.9	5.9	0.6	0.3	0.5	-4.6	-1.3
Gross Domestic Product	**0.3**	**3.9**	**3.5**	**1.8**	**2.9**	**3.6**	**1.6**
Total final demand	4.1	6.7	3.7	0.4	1.4	*	-0.6
Domestic demand	2.2	4.5	4.2	1.4	3.1	2.2	1.4

Notes: Figures in this table are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

(#) Figures are subject to revision later on as more data become available.

(*) Change within ±0.05%.

Table 25 : Rates of change in implicit price deflators of GDP and its main expenditure components (Cont'd)

(%)

	2017	2018#	2019#	2019 Q1#	Q2#	Q3#	Q4#	Average annual rate of change: 10 years 2009 to 2019#	5 years 2014 to 2019#
Private consumption expenditure	2.5	3.1	2.7	1.9	2.7	3.1	3.0	2.5	2.2
Government consumption expenditure	2.5	3.2	4.5	4.1	4.6	4.7	4.7	3.8	3.7
Gross domestic fixed capital formation	4.4	4.6	1.9	1.5	2.6	1.8	1.7	3.4	3.0
Total exports of goods	1.7	2.2	1.1	1.8	1.4	1.0	0.3	1.8	0.5
Imports of goods	1.8	2.3	1.3	1.7	1.7	1.3	0.7	2.1	0.4
Exports of services	3.2	4.5	-0.1	0.8	0.2	-0.7	-0.9	2.3	0.5
Imports of services	2.7	2.8	-1.0	-1.9	-1.7	-0.9	0.4	1.0	-0.3
Gross Domestic Product	**2.9**	**3.6**	**2.4**	**2.8**	**2.9**	**2.3**	**1.7**	**2.7**	**2.8**
Total final demand	2.2	2.8	1.5	1.8	1.8	1.5	1.1	2.2	1.2
Domestic demand	2.8	3.4	2.7	2.1	2.9	3.1	3.0	2.8	2.5

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